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THE NEW ECONOMY

MYTH AND REALITY

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William K. Tabb, Michael D. Yates, Ken Hudson, Janet Wasko, Doug Henwood, Gregory Albo, and *Review of the Month* by the Editors

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MONTHLY REVIEW

VOLUME 52 NUMBER 11 APRIL 2001

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NOTES FROM THE EDITORS

A note to *MR* readers from Paul Sweezy and Harry Magdoff:

It was just over a year ago that we asked John Bellamy Foster and Robert W. McChesney to serve as acting co-editors of *Monthly Review*, with a view to having four co-editors. Although Foster and McChesney were naturals for undertaking this responsibility—they are longtime *MR* contributors and MR Press authors—the type of collegiality necessary to make a publication like *MR* tick is delicate and difficult to predict. We therefore thought it desirable that they be "acting" co-editors, to provide for a trial period. In the past year we have worked together in a truly collective way, published some of our best issues, and circulation has grown at a rapid pace. In addition to political economy and socialist education, John and Bob have opened *MR* up to new areas where we are now on the cutting edge. John is among the three or four leading environmental sociologists, and Bob holds similar distinction as a media and communications scholar. Moreover, both John and Bob have been active in radical movements for much of the past two decades. There is a lot of ballyhoo nowadays about public intellectuals. In John and Bob we have two of the very best of the breed. To top it off, they are genuinely warm and loving individuals with whom everyone

(continued on inside back cover)

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The New Economy: Myth and Reality

by the Editors

In the last few years the idea of a "New Economy" has gained wide currency, almost rivaling "globalization" as a neologism that characterizes our era. Thus *The Economic Report of the President, 2001*, begins: "Over the last 8 years the American economy has transformed itself so radically that many believe we have witnessed the creation of a New Economy." This New Economy is seen, first and foremost, as consisting of those firms and economic sectors most closely associated with the revolution in digital technology and the growth of the Internet. The rapid convergence of information technologies—including computers, software, satellites, fiber optics, and the Internet—has, it is believed, fundamentally altered the economic landscape. Since the mid-1990s, these revolutionary technological developments have, it is argued, spilled over into the wider economy, generating higher productivity growth, a sustained acceleration of economic growth, lower unemployment, lower inflation, and an attenuation of the business cycle.

For many the focal point of the New Economy has been the high-flying technology stocks that carried stock market speculation to new giddy heights during what has come to be known as the "millennium boom." This was rationalized by business (though with growing nervousness after the sharp fall in technology stocks in the second half of 2000) as a measured response to the opportunities offered by the New Economy—and not simply a speculative bubble. Meanwhile, a vast new wave of corporate mergers beyond anything ever seen before has been taking place—for which the dual rationale is globalization and the rise of the New Economy.

No one has been a stronger proponent of the New Economy thesis than Federal Reserve Chairman Alan Greenspan. In a speech on

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"Structural Change in the New Economy" delivered to the National Governors' Association on July 11, 2000, Greenspan argued that "it is the proliferation of information technology throughout the economy that makes the current period appear so different from preceding decades...One result of the more-rapid pace of IT innovation has been a visible acceleration of the process that noted economist Joseph Schumpeter many years ago termed 'creative destruction'—the continuous shift in which emerging technologies push out the old." Among the advantages of the New Economy is the ability of corporations to generate a flood of information in miniseconds, allowing them to "reduce unnecessary inventory and dispense with labor and capital redundancies." In a speech on "The Revolution in Information Technology" delivered at Boston College on March 6, 2000, Greenspan claimed that "until the mid-1990s, the billions of dollars that businesses had poured into information technology seemed to leave little imprint on the overall economy." But beginning in 1995 that changed, and the spillover effects of digital technology are revolutionizing Old Economy sectors, making the New Economy a more universal phenomenon. "Computer modeling, for example, has dramatically reduced the time and cost required to design items ranging from motor vehicles to commercial airliners to skyscrapers."*

The New Economy has also been associated with the development of a more flexible workforce: non-unionized, highly mobile, just-in-time workers, sometimes embodying new job skills. Comparing the more highly unionized labor forces of Europe and Japan to that of the United States, Greenspan stated in July 2000 that "the relatively inflexible and, hence, more costly labor markets of these economies appear to be a significant part of the explanation [as to why the New Economy has been slower to develop there]. The elevated rates of return offered by the newer technologies in the United States are largely the result of a reduction in labor costs per unit of output. The rates of return on investment in the same new technologies are correspondingly less in Europe and Japan because businesses there face higher costs of displacing workers than we do."

The existence of the New Economy, in the sense of the advent of a dynamic information technology sector within the economy that

* For Greenspan's speeches see the Federal Reserve Board web site: <http://www.federalreserve.gov>.

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has been a spur to accumulation, is not to be doubted. Clearly, it constitutes something distinct in the history of capitalism. Two other ideas associated with the New Economy are, however, more open to question. First, it is contended that the New Economy constitutes a new technological-industrial revolution, comparable to the introduction of the steam engine or the automobile in its effect on the overall economy, and that it is remaking the entire Old Economy in its image, ushering in a new era of permanently higher productivity. According to *Fortune* magazine (June 8, 1998), "The [computer] chip has already transformed our lives at least as pervasively as the internal-combustion engine or the electric motor." Second, it is often suggested that the New Economy has attenuated, if not altogether eliminated, the business cycle. Thus Thomas Petzinger Jr. observed in the *Wall Street Journal* (December 31, 1999) that "the business cycle—a creation of the Industrial Age—may well become an anachronism." In the balance of this piece, we will take a look at these two claims.

A New Industrial Revolution?

Some idea of the importance of the New Economy sector to the overall economy can be seen in the fact that although information technology only accounted for at most about 6 percent of GDP during the third quarter of 2000, about a quarter of the total economic growth since 1995 can be attributed to this sector together with telecommunications.* As shown in Table 1 below, the share of information technology investment in total investment in industrial equipment and software (equal to total private non-residential fixed investment minus investment in structures) rose from less than one-third in 1980 to more than one-half in 2000.

Are we then witnessing a new industrial revolution, equivalent to the first industrial revolution, which began at the end of the eighteenth century (centered on the steam engine), or the second

* Estimates on the contribution of the New Economy to economic growth are those of the Bureau of Economic Analysis. See J. Steven Landefeld and Barbara M. Fraumeni, *Measuring the New Economy*, Bureau of Economic Analysis Advisory Committee Meeting, May 5, 2000, Table 2 <http://www.bea.doc.gov/bea/papers.htm>. U.S. government statistics use what is called a "hedonic price index" to make adjustments for quality improvements, in accounting for real computer spending. This tends to overstate information technology spending in the U.S. and its contribution to GDP compared to the majority of countries (exceptions being Canada, France, and Japan) that do not use such hedonic indexes. See *Economic Report of the President, 2001*, pp. 164-65.

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industrial revolution, which began at the beginning of the twentieth century (centered on the automobile and electricity)? For many purveyors of the New Economy idea, not only is this a new industrial revolution, but it is this which has suspended all economic laws, including the business cycle, pointing to a period of long-term, rapid growth, with no foreseeable end.

TABLE 1

Information Technology Investment in the U.S. Economy, 1980-2000 (billions of dollars)

Year	(1) Total Investment in Industrial Equipment and Software	(2) Investment in Information Processing Equipment and Software[a]	(3) Col. 2 ÷ Col. 1 (percent)
1980	227.0	69.6	30.7
1985	334.3	130.8	39.1
1990	427.8	176.1	41.2
1995	620.5	262.0	42.2
1999	917.4	433.0	47.2
2000[b]	1,036.9	532.1	51.3

[a] Includes computers, software and other information processing equipment
[b] Data for 2000 is preliminary incorporating "advance" estimates for the fourth quarter.

Sources: *Economic Report of the President*, 2001, Table B-18, p. 296; *Survey of Current Business*, January, February 2001, National Income and Product Accounts, Table 5.4.

The facts, however, support none of this hype. In this connection it is useful to distinguish between the sector that produces computers and where these products are used in the business economy. Contrary to a widespread view, computers are not used equally everywhere within business. Conference board economists Robert H. McGuckin and Kevin Stiroh have provided an analysis of the eight private sectors of the economy that use computers most intensively—each with more than 4 percent of their capital in the form of computers. This includes three service sectors—trade, FIRE (finance, insurance, and real estate), and other services, and five manufacturing sectors—non-electrical machinery, electrical machinery, printing and publishing, instruments, and stone, clay, and glass. The percentage of total value added in the economy and the share

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of computer capital input within business accounted for by each of these industries in 1991 are shown in Table 2 below. Most significant is the fact that 76.6 percent of all computer input within business in 1991 occurred in trade, FIRE, and other services (which encompasses various personal services, including legal services, healthcare and software). Only 11.9 percent of computer input into business is accounted for by the five computer-intensive sectors in manufacturing listed in Table 2, and a further 11.5 percent by twenty-seven other industries (including agriculture, mining, transportation, construction, communication, and public utilities, among others).

TABLE 2

Eight Most Intensive Computer-Using Sectors, U.S. Economy, 1991

Sector	Percentage of Total Value-Added in the Economy	Percentage of Total Computer Capital Input within Business
Manufacturing		
Non-electrical Machinery[a]	2.2	4.6
Electrical Machinery	1.9	2.5
Printing and Publishing	1.7	2.4
Instruments	1.5	1.5
Stone, Clay, and Glass	0.6	0.9
Services		
Trade	15.4	14.2
FIRE[b]	14.7	32.2
Other Services[c]	25.1	30.2

[a]Computer and office equipment is one of the classifications included in the Non-Electrical Machinery sector.
[b]Finance, Insurance, and Real Estate
[c]Includes business and personal services such as software, health care and legal services.

Sources: Robert H. McGuckin and Kevin J. Stiroh, "Computers Can Accelerate Productivity Growth," *Issues in Science and Technology* (National Academy of Sciences), vol. XIV, no. 4 (Summer 1998),Table 1, p. 42; Kevin J. Stiroh, "Computers, Productivity, and Input Substitution," *Economic Inquiry*, vol. 36, no. 2 (April 1998), pp. 175-91.

To be sure, the structure of demand for computers shown here is partly a reflection of the enormous weight in the economy assumed by services, and particularly financial services. But a technological revolution that finds more than three-quarters of its business demand in the service industries (including finance, retail and wholesale trade, marketing, legal services, health services, entertainment, and other personal services) may be seen as falling some-

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what short of an all-round "industrial revolution."* The service industries, rather than representing high productivity growth in the economy, generally represent just the opposite (if productivity growth means anything in this context).†

Indeed, when it comes to an empirical examination of the New Economy thesis that the digital revolution since the mid-1990s has heightened productivity throughout the economy, the most that can be said is that there still is little or no hard evidence that computers have generated much progress in this area. The upturn in productivity, which accompanied the upturn in the business cycle, has naturally encouraged the view that this can be explained by the information technology revolution. But is the jump of 1.33 percentage points in average annual rate of productivity growth—which rose from 1.42 percent in 1972-1995 to 2.75 percent between fourth quarter 1995 and fourth quarter 1999—really a result of the productivity-enhancing effect of information technology, spilling over into the overall economy? This question has been taken up most systematically by Robert J. Gordon, professor of economics at Northwestern University. Gordon "peels the onion" of productivity growth to show a surprising explanation, very different from the received truth in the establishment and the public. Gordon looked into the various factors contributing to the leap in rates of productivity. He explains and demonstrates the effect of a variety of contributing factors such as the cyclical upturn of the economy, technological acceleration in the production of computer hardware, and technological changes in factories producing durable goods. His striking result is that the contribution computer use has made is surprisingly low. Of the 1.33 percentage-point rise in productivity growth referred to above, only 0.07, "a mere pittance," can be attributed to the use of computer technology

* It should be noted that there have been major advances in the use of automatic machinery within industrial production as a result of the new technology. This includes not only computers but also cybernetics, which has a lot to do with the whole computer technology. To get more automatic, workerless production equipment, various devices of automatic controls and feedback, which use computers or computer-like instruments, are introduced. Hence, data on the utilization of pure information technology within durable manufacturing, such as referred to here, may be somewhat misleading, understating the role that the new technology plays in that sector.

† On the problems of the application of productivity statistics to the service sector see Harry Magdoff and Paul M. Sweezy, "The Uses and Abuses of Measuring Productivity," *Monthly Review*, June 1980.

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and software outside of durable goods production. In sum, he found that the effect of digital technology on productivity was small on the whole; such advance as there was took place almost entirely in the manufacture of durable goods.*

It is of course widely believed that the rapid expansion of the Internet has been the device that has allowed the productivity effects of the New Economy to diffuse throughout the economy. But the facts, as Gordon's analysis of productivity has shown, do not warrant such a conclusion at present. Computers are widely available in offices, but rather than increasing the productivity of business, the opposite effect often seems to apply, as employees use their corporate Internet access to look up stock quotes related to their personal investments, to do online shopping, or to carry on e-mail correspondence. Studies show that consumer oriented Web sites get their highest usage not in the evenings or on weekends, but in the daytime, Monday to Friday, when people are at work. The proliferation of laptop computers, faxes, satellites, the Internet, etc., has dramatically altered the newspaper business, yet between 1987 and 1997 productivity in the newspaper industry dropped by an average annual rate of 2.3 percent (John Cassidy, "The Productivity Mirage," *The New Yorker*, November 27, 2000, p. 116).

The digital revolution certainly is a technological revolution with widespread effects; the important thing from an economic standpoint, however, is that it is not epoch-making, as in the case of the steam engine, the railroad, and the automobile. It still has not produced "a radical alteration in economic geography with attendant internal migrations and the building of whole communities," each requiring or making possible the production of numerous new goods and services, on the same scale as did the steam engine, the railroad, or the automobile in the first and second industrial revolutions (Paul Baran and Paul Sweezy, *Monopoly Capital*, pp. 219-20).

The Taming of the Business Cycle?

The economic expansion that began in March 1991 has been accompanied by an explosion of stock market valuations and of cor-

* Robert J. Gordon, "Not Much of a New Economy," *Financial Times*, July 26, 2000, and "Does the 'New Economy' Measure Up to the Great Inventions of the Past?," *Journal of Economic Perspectives*, vol. 14, no. 4 (Fall 2000), pp. 49-74.

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porate (and consumer) debt. As Yale economics professor Robert Schiller observed in his book *Irrational Exuberance*,

> The Dow Jones Industrial Average … stood at around 3,600 in early 1994. By 1999, it had passed 11,000, more than tripling in five years…. However, over the same period, basic economic indicators did not come close to tripling. U.S. personal income and gross domestic product rose less than 30%, and almost half of this increase was due to inflation. Corporate profits rose less than 60%, and that from a temporary recession-depressed base. (page 4)

The "millennium boom," Schiller goes on to observe, is the "largest stock market boom ever." Price-earning ratios (the real S&P Composite Index for stock prices divided by the ten-year moving average of real corporate earnings on the index) hit 44.3 in January 2000, the highest level ever recorded up to that time, with the closest historical parallel in September 1929 (just before the stock market crash), when the ratio hit 32.6. For Schiller and many others the dizzying inflation of share prices on the stock market has all the characteristics of a classic speculative bubble, traceable to factors that have nothing to do with "rational economic fundamentals," given the much slower relative growth of earnings.

Significantly, it was Alan Greenspan, in a speech in Washington on December 5, 1996, who coined the term "irrational exuberance" to describe this dangerous situation. Here it is worth noting that there are a number of problems facing Greenspan in his role as Federal Reserve Chairman. He must try to keep the economy flying high as long as possible, and help to engineer a soft landing when it is not. Both of these aspirations are of course well beyond the powers of any individual or any institution, including the Federal Reserve Chairman and the Federal Reserve Board. Hence, a certain amount of "jawboning" designed to influence the markets is part of the game. Greenspan's statements have often been aimed at calming down the speculating, lest the market take a major dive and upset the apple cart, while also serving to warn business that there is a very real danger. At the same time his pronouncements more generally are aimed at rationalizing for investors the anarchy of the market, in order to build a general sense of stability and confidence. Thus just months after his "irrational exuberance speech," Greenspan was extolling the virtues of the New Economy. The bal-

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looning of stock valuations and the seemingly overrapid growth of the economy in general were not irrational in the main, but were in large part justified by the productivity expansion brought on by the New Economy. It was now possible to have lower unemployment without the threat of inflation—precisely because of this growth of productivity. As it is now commonly put in the economic literature, the "speed limits" of the economy had changed.

Over the course of every long boom in the history of industrial capitalism, economic interests have sought to account for continuing growth and stock market expansion by arguing that a New Era has arisen, which has tamed, or even eliminated the business cycle. Such New Era pronouncements are always rooted in some notion of changing technology and/or business organization. Prior to the 1929 stock market crash that introduced the Great Depression, it was commonly argued that a New Era had emerged with the growth of the large monopolistic capitals, which were able to manage and regulate the economy more efficiently, smoothing out the economic swings and decreasing or eliminating the downswings altogether. Irving Fischer, professor of economics at Yale, and the most prestigious U.S. economist of his day, is reported to have declared, on the basis of such New Era thinking—just prior to the stock market peak in 1929 (which was closely followed by the crash)—that "stock prices have reached what looks like a permanently high plateau" (quoted in Schiller, *Irrational Exuberance,* p. 106).

Similar views are being promoted today. For example in a July/August 1997 article entitled "The End of the Business Cycle?" for *Foreign Affairs* (the leading U.S. foreign policy journal, published by the Council for Foreign Relations), Steven Weber argued that "Changes in technology, ideology, employment, and finance, along with the globalization of production and consumption, have reduced the volatility of economic activity in the industrialized world. For both empirical and theoretical reasons, in advanced industrial economies the waves of the business cycle may be becoming more like ripples."

Greenspan himself, though hardly claiming that the business cycle has been eliminated, has suggested, as we have seen, that the increased control of inventories resulting from the development of computerized information systems and just-in-time production has

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enormously reduced the forces generating recession. "Prior to the IT revolution," he argued in a speech before the Joint Economic Committee of Congress on June 14, 1999, "the paucity of timely knowledge of customers' needs and of the location of inventories and materials flows throughout complex production systems" necessitated the maintenance of "substantial programmed redundancies," including "doubling up on materials" if businesses were to function properly. In the New Economy, however, business management has been able "to remove large swaths of inventory safety stocks and worker redundancies." The advent of processes such as bar-scanning devices and satellite location of trucks has reduced delivery times. The growth of Internet Web sites has speeded up and in some cases streamlined the way business transactions are conducted.

Moreover, along with his claim that structural productivity growth has shifted upward with the advent of the New Economy, Greenspan also insists that wages have been kept down and unit labor costs restrained by increased job insecurity of workers at any given level of unemployment, due to globalization and the creation of more flexible labor markets, which are taken as hallmarks of the New Economy. Consequently, workers threatened by "flexibility" (which has often meant the growth of non-standard and contingent jobs, such as work through temporary help agencies) opt for job security where possible rather than rocking the boat with wage demands. In testimony before the Joint Economic Committee on March 20, 1997, Greenspan noted: "In 1991, at the bottom of the recession, a survey of workers at large firms by International Survey Research Corporation indicated that 25 percent feared being laid off. In 1996, despite the sharply lower unemployment rate and the tighter labor market, the same survey organization found that 46 percent were fearful of a job layoff."

The argument on job insecurity, which focuses on a more intense class struggle imposed from above and the increasing costs of losing a job (particularly given the rising indebtedness of the working class), gets closer to the truth in explaining why "wage inflation" did not ignite during the economic expansion, than do claims regarding structural improvements in productivity. Nevertheless this argument, like all other dominant economic perspectives, suffers from a view of the business cycle ushered in by monetarism and Reaganomics that

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sees inflation (especially so-called "wage inflation") as the primary cause of recessions. The truth is that economic downturns have more fundamental causes related to accumulation, the buildup of overcapacity, etc., that are relatively independent of mere price movements. It is not a squeeze on profit margins, due to rising wage costs—supposedly forcing firms to raise prices—that generally accounts for the onset of economic crisis. More important is the overinvestment and overexpansion of debt that occurs whenever the forces that initially propelled the boom start to peter out. And underlying this of course are structural problems of overexploitation, uneven distribution of income of wealth, and lack of effective demand that are always present under capitalist conditions. Such basic truths of accumulation, which were widely acknowledged in the days of the Keynesian revolution, remain as valid today as ever—the New Economy notwithstanding.

The deceleration of real GDP growth in the fourth quarter of 2000, dropping from 2.2 percent in the third quarter to 1.1 percent in the fourth quarter, generated widespread concern within business. Most ominous was the fact that real nonresidential fixed investment fell 0.6 percent in the fourth quarter, as opposed to a rise of 7.7 percent in the third, with investment in equipment and software declining by 3.5 percent. All of this occurred simultaneously with a dramatic drop in the NASDAQ stock index (dominated by dot-coms), followed by a general decline on the New York Stock Exchange.

Whether these events presage a full-fledged economic crisis, no one knows at this point (late February 2001). What is significant, however, is the surprise with which this apparent turnaround was viewed even in supposedly knowledgeable quarters. Some had clearly come to believe, history notwithstanding, that periods of rapid *technological* progress were themselves guarantees against business downturns. Others had bought into the idea that the New Economy was new precisely in the New Era *extra-economic* sense of overcoming the business cycle. The point to remember, however, is that business cycles have been a regular feature of capitalism since the early part of the nineteenth century and continue to live on despite dreams about the flood of information available to corporations in miniseconds, and similar notions. None of the empirical and theoretical claims associated with the New Economy—technological revolu-

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tion, rising productivity, rising profit margins, and the like—are proof against the business cycle. Indeed, cyclical downturns most often occur not in spite of but because of such developments. That is, a high rate of accumulation can itself lead to crisis. Overexpansion of capacity relative to consumer buying power is an essential feature of a capitalist economy throughout its history—in the state of competitive capitalism, in the monopoly stage, and in the current phase of accelerating globalization and new technology.

Nor is the expansion of the financial system, including the participation of more and more people in speculative markets, a guard against crisis. Financial crises, like economic crises more generally, are endemic to accumulation under capitalism. Such economic instability arises not from mismanagement, shortage of information, or lack of business and consumer confidence, but from the dynamics of class-based accumulation. The outstanding contribution made by the new technology in creating mountains of information that can spread around the world at the speed of light can contribute to a meltdown of the money markets as effectively as it contributed to its ballooning. News or hints of a break in the fragile financial network, which is based on thinly spread layers of debt, can reach the money market headquarters with a speed too fast for central banks to prevent a chain reaction on the way down.

Next to Greenspan himself, Michael Mandel, economics editor for *Business Week*, has probably done more than anyone else to propagate the current New Economy hype. Yet, instead of arguing that the New Economy is impervious to the business cycle, Mandel has recently written a book, entitled *The Coming Internet Depression*, that points to the probability of a severe New Economy crisis, arising specifically out of what he calls the "tech cycle." The tech cycle, Mandel argues, stands for the fact that "the business cycle has been reincarnated in a different garb for the information age." The expansion phase of the tech cycle, he says, is characterized by rapid technological innovation; easy available funding for start-ups (as a result of venture capital); strong productivity growth; investment booms as companies scramble to keep up with the technology; the holding down of inflation due to productivity gains and competitive pressures; and buoyant stock markets. All of this conveys the main thrust of the New Economy idea. But Mandel says that there is also

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a contraction phase to the New Economy's tech cycle: technological stagnation; the drying up of venture capital; weak productivity growth; falling investment; rebounding inflation; and depleted stock markets. Insofar as the tech cycle is seen as displacing the traditional business cycle, Mandel's analysis is altogether questionable. But his claim that the various forces that sent the New Economy up can also, once these forces have been spent, lead to its turning down—and indeed account for a drastic downturn—adds an element of rationality to the New Economy hype. High tech, Mandel argues, means "high volatility."

Making things even more perilous, Mandel argues, is the extent to which the New Economy boom has been financed by debt, both corporate and household, which introduces the possibility of cascading defaults. The ratio of household debt to disposable income rose from 80 percent in 1989 to around 100 percent today.* The debt of nonfinancial corporations, meanwhile, rose by 34 percent between the beginning of 1997 and the beginning of 2000. Such extensive borrowing means more pain in the downturn of the cycle—particularly for workers who have borrowed out of necessity to compensate for stagnant real wages.

It is also worth noting that the United States benefited in the 1990s from the relative prosperity of its economy in relation to Europe and Japan. An economic resurgence in Europe and Asia, however, Mandel warns, could "trigger a financial crisis in the U.S., and perhaps even globally." The New Economy boom in the U.S. had been financed to a considerable extent by an expanding flow of money from overseas. "In 1995," he notes, "foreign money was only 8% of total U.S. investment (residential and business). By the first quarter of 2000, foreign money had risen to 26% of total investment." All of this has made the U.S. a net debtor on a massive scale, "with the value of its overseas liabilities exceeding the estimated value of assets overseas by more than $1 trillion at the end of 1999." It is conceivable that such conditions could lead to a devastating run on the dollar causing foreign investors to pull out their investments even more quickly than they put them in. This could generate a global financial crisis. With "a sell-off of the dollar," as economists John Eatwell and Lance Taylor wrote in *Global Finance*

* See the Editors, "Working-Class Households and the Burden of Debt," *Monthly Review*, vol. 52, no. 1 (May 2000), p. 1-11.

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at Risk, "the potential disequilibria—portfolio shifts away from the U.S., bigger international obligations on its debt, and growing financial stress on the household sector—could begin to feed on one another and on the views of the markets. At that point ... all hopes for global macro stability could disappear." The globalization of the disastrous consequences of a New Economy bust could generate a world economic meltdown.

Michael Mandel's book, following the competitive dictates of the business-press market, is subtitled *Why the High-Tech Boom Will Go Bust, Why the Crash Will Be Worse than You Think, and How to Prosper Afterwards.* This is prognostication and hyperbole, not science. Although it is entirely rational to recognize that the New Economy thesis, even if assumed correct, has its downside, which could lead to a severe crisis, it is well to remember that much of what is taken as already proven about the New Economy is illusion. The investment boom associated with the digital economy is real. But the thesis that there has been a structural (not cyclical) elevation of productivity throughout the whole economy, and that this (rather than the class struggle and the restructuring of the labor market) accounts for relatively high employment accompanied by relatively low inflation, is extremely doubtful at best. Indeed, the commonsense economic assumption that higher productivity automatically means higher economic growth is itself questionable. Some of the fastest expansion of jobs and value-added in the U.S. economy in recent decades has been in those sectors—services, and especially financial services—that are notorious for their low productivity gains, and that are associated with the accumulation of money capital rather than the expansion of production.

Hence, the economic downturn that now appears to be upon us will most likely have much more in common with a classic business cycle, in which the central role is played by the buildup of overcapacity, than with the "tech cycle" described by Mandel. Indeed, excess capacity is now appearing in industry after industry and on a global scale. As reported by Floyd Norris in the *New York Times* (February 16, 2001), the global telecommunications industry—the highest of high-flying sectors of the late-90s boom—is facing a "black hole." The enormous capital expenditures have created capacity that far outruns demand. And credit has dried up, even as

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vast sums are needed to complete massive projects already well underway. "Weaker companies, meanwhile, are failing. 'Piece by piece, they are starting to default up the chain,' said Charles Clough of Clough Capital, a money management firm.... Eventually, there will be growth to absorb the excess capacity. But that will take years, not months. The financial markets have still not fully discounted the pain to come."

There is no question about the fact that the magical new technology of the information age has dramatically changed aspects of personal and social life. It promises to do even more as time goes by. Indeed, all major technological revolutions over the course of capitalist development have contributed their share in altering the way we live. But in no case did any of these earlier technological revolutions create a new economy, or a new tech cycle, any more than has today's digital revolution. The economic laws of motion of capitalism remain in force.

We are living through an unprecedented situation marked by dramatic new developments, including not only the New Economy boom and bust, but also an unheard of polarization of wealth, rampant globalization, and the greatest merger wave in history aimed at the takeover of larger and larger sections of the world market by a relatively small number of global-monopolistic corporations. Rather than trying to predict what will happen under these rapidly changing circumstances we should be keeping our eyes on the main contradictions and tendencies that will feature prominently in any future developments, recognizing all along that this is a phenomenon of capital accumulation and crisis—and hence class struggle.

"Many economists still think that electricity deregulation will work. A product is a product, they say, and competition always works better than state control. 'I believe that premise as a matter of religious faith,' said Philip J. Romero, dean of the business school at the University of Oregon and one of the architects of California's deregulation plan."

—*New York Times*, February 4, 2001

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New Economy... Same Irrational Economy

by William K. Tabb

What can we say about the assertion that there is a "New Economy"? That depends on what we mean by this term. It is nonsense to claim, and few do any more, that the business cycle has been eliminated or that the contradictions of capitalism have been resolved. In 2000 we witnessed a massacre of technology and Internet stocks ending what many considered the country's biggest financial mania of the past hundred years. The NASDAQ lost over half of its value, a paper loss of 3.33 trillion dollars, the equivalent of a third of the houses in the United States sliding into the ocean, as one Wall Street wag tells us. While only a few months ago, all we heard about was the magic of the market and that crises are the result of bad government policies, whether "crony" capitalism or simply failure to make information available to markets in a full and timely fashion, and that the new information technology now makes markets even more efficient; all of this talk is now shown to be the usual exaggeration we find in the up stage of most long expansions. As in the past it disappears as the economy weakens. Indeed as inventories pile up the nature of capitalism becomes clear to even the financial press and the politicians.

As to the permanently high plateau we were said to be on thanks to the great increases in productivity brought about by the New Economy, it now appears to many New Economy enthusiasts that this has been a cyclical phenomenon. As the *Financial Times* writes editorially, a New Economy "driven by a productivity miracle now

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seems even more far-fetched."[1] By early 2001, as companies cut their investment spending substantially, capital budgets for equipment and software declined, mocking the claims that informational technology would be relatively immune to the business cycle.

The notion that better information alone guarantees that markets will allocate resources efficiently has always been a major misrepresentation. The idea that policy makers and private decision makers now have "reliable information about the future thanks to the IT revolution" has proven equally chimerical. In Mexico in 1994, for example, the data was available well before the peso crisis erupted, as it was in Thailand and elsewhere before the East Asian financial crisis broke in 1996. In every expansion, as Keynes and Marx before him explained, there is the tendency for investors to be overconfident and shrug off the warning signs. The information can be available and transparent, but the interpretation of events and data during the expansion leads to piling speculation upon speculation.

Until the high-tech bubble burst, there was a widespread belief that this business cycle was different. This was usually supported not only by the length of the expansion, but also by the lack of inflationary pressure in the face of prolonged growth, and in the second half of the 1990s by the rapid increases in productivity. But it is now evident that the talk about the end of the business cycle as a result of a "New Economy" was as misguided as similar talk, which always sprouts toward the end of long periods of expansion, has always been. There has been talk of a "New Economy" toward the end of every long boom, when it is said that the business cycle is *passé* and that there are new rules. In the 1920s, amid such euphoria, many working people were seduced by the promise of capital gains to be made in stock speculation in such "high tech" New Economy firms as General Motors and RCA; they began to buy as the party was about to end. Capitalism grows through alternating periods of expansion and crisis; that remains its nature. Does this mean that nothing has changed, that there is no "New Economy"? I do not think this would be right, either.

The truth is that the "information revolution" does not change the basic nature of the way capitalism works, even if it enhances productive efficiencies just as the telegraph and transoceanic cable did in an earlier era of capitalist development. More important is the basic continuity of the system. Technology in a capitalist economy is

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embedded in a set of social relations. These include the patterns of ownership and the speculative growth of fictitious capital that results from the drive—on the part of those who make a living buying and selling claims to future surplus extraction—to overvalue assets. In this fundamental reality of the system there is surely no New Economy. Those who said, "but this time it is different," are quieter these days. At the start of 2001 the Goldman Sachs Internet Stock Index was down three-quarters from its peak, leading the *Financial Times* to editorialize that the words "New Economy" "will give investors nightmares." But we should not move from acceptance of the New Economy hype to the pessimism that it was all just a speculative bubble, a high-tech tulip mania.

The New Economy thesis does raise two significant areas for investigation. The first is in what sense can it be said there is in fact a "New" economy? This involves the thesis that we have entered a third industrial revolution. Perhaps the term "industrial" is outmoded since it is being suggested that a "knowledge" or information economy has emerged, in which we have increasing returns to scale. The distinction is not simply the stress on information as opposed to physical production; rather it is the idea that since knowledge can be used by others without additional cost, the more output the knowledge economy produces the lower the cost per unit of its production. Instead of diminishing returns we have increasing returns. This, it is suggested, promises a more rapid rate of growth in the future. Some theorists carry this line of thinking quite far, claiming that the old rules and relationships no longer apply. However, this thesis has hit some speed bumps as the speculative bubble that accompanied these bold assertions collapsed. At a more fundamental level, many of the innovations of the past created increasing returns to scale and network effects; the idea that the more people use a technology the more they will want to use it, like the Internet or a video format, while accurate enough, forgets that the telephone and other innovations had this same property.

The New Economy thesis also raises questions about its effects on the masses in their roles as workers, consumers, and citizens. Has the New Economy empowered workers by leveling the hierarchical structures of the corporation and by increasing the value of the knowledge workers possess relative to that of "mere" capital? Or has

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the New Economy led to a greater concentration and centralization of power made possible by the new technology available to management? With the new technology comes a class recomposition, but what exactly is its nature and what are its consequences likely to be? Despite the optimism on these matters in some circles the increase in job insecurity, the stagnation of real earnings, the loss of health care coverage and other benefits, and the increased political power of corporate capital to claim ownership of intellectual property would seem to argue for the dismissal of such Panglossian interpretations.

This discussion too has become more subdued in recent months as a result of the fallout from the major market "corrections" we have experienced. These are nonetheless important questions that retain long-term salience. Here we will look at the question of what kind of newness we should be talking about, and then we will say some things about the shape the U.S. and the global economy are taking in this period after the bubble has burst.

I do not know how to compare the impact of Crompton's mule, which revolutionized the spinning of cotton, to that of the personal computer, or Watt's steam engine to the Internet. Can we, should we, attribute the current restructuring of the economy to the lower costs of data processing in the same way we have learned to see the declining cost of output in the textile industry as the basis of England's fortunes? As the cost of steam power fell dramatically it sped industrialization more broadly in the eighteenth century. I think there is already enough evidence of similar cost-reducing capacities in information technology. These new processes are somewhat analogous to those of the second industrial revolution a century ago when breakthroughs in chemical and mechanical industries, and the impact of electricity and the electric motor on industrial output, vastly changed the nature of production and social life. The new sources of energy, electricity and petroleum, made possible the radio, television, automobiles, and trucks. Among other society-reshaping innovations we might point to the telephone and penicillin as changing the possibilities for people and capital. Is the growth of information technology—by increasing the speed and lowering the cost of data collection, storage, retrieval, processing, and dissemination through networks that

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include entertainment and business-to-business channels—changing our world dramatically? I think so, but perhaps significantly less dramatically than was the case for the first two industrial revolutions. One prominent productivity expert suggests, for example, that it is not clear that the computer has been as important to economic growth as the air conditioner was.

Capitalism does innovate and major new technologies do feed a cumulative growth cycle as they spread through the economy, but this is not anything new. As David Landes wrote of the first industrial revolution, it "initiated a cumulative, self-sustaining advance in technology whose repercussions would be felt in all aspects of economic life."[2] The same may be true of the developments visible in the present period even if their extent may not yet justify calling this a third industrial revolution. They too are embodied in capital and work processes, change the balance among class fractions, and reconstitute classes and forms of industrial and social organization. There has not, however, been the liberatory end to the "inexorable demands of the clock," as some of its enthusiasts have suggested. The PC, fax, and cell phone, rather than providing more free time have enmeshed many in a world in which it is far harder to find private, family, or non-work-related communal space. There is exposure to greater speedup and intensified control over the labor process, and the development of an enlarged, more flexible workforce on a global scale has increased inequality everywhere.

Companies in the 1990s learned more brazenly to fire long-term employees, outsourcing and subcontracting their jobs, replacing their traditional workforces with contingent and contract workers, and shifting core employment to a smaller New Economy cohort. The power of the employer class to harness the technologies of the first and second industrial revolutions led to decades of harsh working conditions, intolerable hours, intensified work pace, and near starvation wages, until the working class gained both an understanding of what had happened to it and the self-organization to begin successfully resisting the depredations of capital. In each case a smaller group of workers and a new middle class benefited while public policy supported the intense exploitation of the majority who were ground down by the reorganization of work. But in both previous industrial revolutions a class-conscious working class emerged.

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This third wave is different in that it is in the context of a greater internationalization of labor. The next wave of popular resistance is therefore likely to be more internationalist as well.

At the same time I think it is also true that new technologies do change the way we live and the manner in which goods and services are produced and distributed. It is unlikely that very many of the new start-up firms will have staying power. But some of them will revolutionize the means of production and there is reason to accept that this period is one in which a wave of innovative synergies brought to us by the computer, and microprocessors more broadly, the joining of laser and fiber optics, satellites and a host of other critical technologies will in retrospect make the present period appear unique in much the same manner as the earlier industrial revolutions appear to us today. Whether one wants to stress the disjuncture of such developments, or their essential continuity, seems secondary.

Why Marxists should be surprised by the extent of such developments and their widespread impacts I do not know. "The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and without them the whole relations of society," as Marx and Engels wrote in *The Communist Manifesto.* Globalization, which they presciently described in that document among others, continues the search for lower-wage workers through geographic expansion that has long been central to the operation of the capitalist system. Landes writes of early industrialism, "...rural manufacturers expanded easily by opening new areas—moving from the environs of the manufacturing towns into nearby valleys, invading less accessible mountain regions, spreading like a liquid seeking its level, in this case the lowest possible wage level. It was in this way that the woolen industry filled the dales of Wiltshire and Somerset and came to thrive all along the Welsh marshes by the end of the sixteenth century."[3]

Likewise, the Internet will surely continue to revolutionize the economy, offering unexpected opportunities as it dramatically lowers the costs of doing conventional business tasks. Product development time is cut by computer-aided prototype design and testing. Warehousing control and just-in-time delivery cut down the scale and cost of inventory management. Truckers, while on the road, can check in real time for business on the route they are traveling.

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Construction subcontractors can share blueprint changes instantly and schedule site activities. Medical tests can be processed faster and results delivered, along with diagnoses, to remote sites. Goldman Sachs estimates initial business-to-business savings in the 10 to 25 percent range for industries such as aerospace machining, forest products, media and advertising, auto and steel.[4]

Just as a hundred years ago the giant industrial corporations that were to dominate the U.S. economy for most of the coming century, the U.S. Steels and the Standard Oils, were formed in breathtaking mergers, so today we may be seeing the basis of the twenty-first century economy being created. Many of the new behemoths like Cisco, Lucent, and Nortel, are hardly household names, and even those that have become familiar, like Microsoft and Intel, are new to the landscape. Of the twenty-five largest American corporations in 1960 only four are still on the list at the start of the new millennium. Similar changes are taking place globally as old corporations fade and their space is taken by new ones prominent in the cyber-economy: Nokia in Finland, Ericsson in Sweden, and others. A prime example is the U.K. firm Vodafone, not two decades old when it swallowed Mannesmann, which had existed in various forms for more than a century, in the largest merger ever and the first hostile merger in Germany by a foreign firm. The struggle to dominate the terrain of the New Economy is accelerating.

The cost of being part of the New Economy declines as its benefits increase. The price of a new computer has fallen at an average rate of almost 20 percent a year since the early 1950s. Spending on information technology was less than 7 percent of total equipment investment in 1954, but is 50 percent of total equipment investment today. Meanwhile the structures of twenty-first-century industries are continually transformed through convergence. There is interpenetration of content and delivery, fixed and mobile telephony, and voice and data transmission. Telephone, radio, and television can be delivered together and in a number of competing ways. But these innovations have lengthened the working day as people can be reached twenty-four hours a day, seven days a week. These innovations have enhanced management's ability to monitor their employees' work and communications. Sophisticated software scans employee e-mail for words such as "union," while the number of

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orders processed, words typed, and requests fulfilled are computed automatically and arrayed by employee for supervisors to compare. Personal users of the Internet are tracked and their inner secrets pried out by compiling the sites they visit and the purchases they make; their consumer profile is then sold to advertisers to customize the sales effort.

Just as in earlier waves of capitalist expansion, maximization of private profit collides with social needs, and technologies are developed in ways that serve capital at the expense of working people. As David Coates has written: "Globalization in its modern form is a process based less on the proliferation of computers than on the proliferation of proletarians. The growth in the size of the world's proletariat and the change in its geographical centers of gravity– and not simply the enhanced mobility of capital – are among the defining features of the current phase of global capitalism."[4] In mainstream discourse this is usually ignored, or denied, while the intensified exploitation of labor is celebrated as a factor contributing to the marvelous performance of the New Economy.

High tech, of course, does not supply high-wage employment to most of its workers. Below the dot-com former zillionaires (many of whom are unemployed while others remain multimillionaires), and the stock-option staff (who may wish they had opted for health benefits, job security, and pensions instead), are the subcontract fulfillers who never had much of anything and vastly outnumber the higher profile masters of the high-tech universe. Silicon Valley's electronics industry remains part of the global assembly line. The underside of the valley is inhabited by Mexicans and Cambodians living in crowded conditions at exorbitant rents, and who are paid four or five dollars an hour for work they are forced to take home when delivery deadlines have to be met. Forty percent of the homeless in Santa Clara County have jobs; they just can't afford housing on what they make, nor can teachers, firefighters, or police. Jobs are available in the valley, indeed more than a third of local "high-tech" jobs go begging according to a survey of employers. That's because many of these are in sub-contract manufacturing and the outsourcing of service jobs that keep costs down for the dot-coms, some of whom are the most profitable companies in the world. The majority of the valley's residents are nonwhite, largely Mexican immi-

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grants. Forty-two percent of Santa Clara County's work force are part-time, temps, contract workers, or self-employed, compared to half of that proportion in the 1980s. The recovery and the prosperity have not been shared. Generally in this country the low unemployment rate is hardly an indication of well-being. Real wages for most workers have been stagnant and for the bottom 40 percent or so have fallen substantially.

Despite its importance for the stock market the New Economy is not producing a general prosperity; frequently it is an enclave economy. Indeed, it is part of the growing inequality at home and in "Belinda." Belinda is that paradigmatic country with a dual economy. While it has a high-skilled capital-intensive sector comparable to Belgium, most of its citizens live under conditions comparable to India. Not only is India itself a Belinda, so are South Africa, Brazil, and many other countries with gross inequalities. Such a pattern of combined and uneven development is nothing new of course.

It would be well to remember that 99 percent of the billion or so workers who will join the labor force over the next quarter century will live in what are today's low- and middle-income countries. According to the World Bank, "there is no worldwide trend toward convergence between the rich and the poor workers. Indeed," their annual report has noted, "there are risks that workers in poorer countries will fall further behind."[5] This means that not only will there continue to be immigration, documented and undocumented, but that a vast labor reserve exists, and a vastly larger one is coming into existence. This poses a threat to the living standards of the higher-skilled as well as the lower-skilled workers in the core. Relatively low-wage skilled workers exist in increasing abundance in the periphery, ranging from computer programmers in Bangalore, India, to the highly skilled technicians fashioning replacement teeth and crowns in Merida, Mexico, for the U.S. market.

The New Economy allows companies to dump noncompetitive or redundant workers while adding new ones at home and abroad. In 1999, at what may prove to be the peak of the longest recovery in the nation's history, reported layoffs in the U.S. reached 675,000 according to Challenger, Gray & Christmas, the personnel-consulting firm that monitors reported layoff plans. The comparable figure was only 111,000 in 1989 during a period of recession. The Bureau

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of Labor Statistics, whose figures include layoffs that aren't publicly announced, said the total exceeded one and a half million lost jobs in 1999. The ideological climate has changed so much that companies feel they suffer no adverse consequences from disposing of some workers while hiring others they prefer.

The connections between a rising high-tech segment of the stock market, widespread stagnation elsewhere, and more or less constant and falling real wages for the majority, need to be made clearly so that the celebration of the New Economy by politicians and the financial press can be better understood. Beneath the technological progress are the same old instabilities and social relations of capitalism.

At the start of 2001 Stephen Roach, chief economist at Morgan Stanley Dean Witter, called what we are experiencing "the recession we needed." There had been indiscriminate buying by firms of unnecessary computers and software upgrades, savings had plunged, the U.S. had borrowed too much from abroad, and a recession would take care of it all.[6] But, if spending on computers and technology generally had been overdone, it was also responsible for the increases in measured productivity and the general optimism and prosperity of the market, however narrowly shared. This optimism was based on borrowed money and spending that reflected inflated paper wealth from stock holdings. While we may need a correction the downside is not easy to predict and many are worried.

With American success in the 1990s came greater dependence on foreign money, and increased consumer and corporate debt. Foreigners had more than six trillion dollars invested in the U.S. (Americans have about 2.5 trillion dollars invested abroad) at the beginning of the new millennium. The current accounts deficit, the net flow of goods and services including income earned on foreign investments, is currently above 4 percent of GDP, a level that would result in capital flight in many other countries, and as the economy slows it is widely understood that foreign investors cannot be counted on to finance the record-high $400 billion current account deficit. Capital flight *can* happen here. Maurice Obstfelt of the University of California at Berkeley and Harvard's Kenneth Rogoff suggest the dollar could fall by as much as the Mexican peso did in 1995. Princeton economist Alan Krueger worries that this could be

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a real problem since there is no international monetary authority that is large enough to bail out the United States.

If spending on computers and technology has been responsible for the higher productivity and prosperity, then overinvestment will be followed by a period of slow growth. As a result productivity growth will slow and unemployment will increase. As the dollar falls import prices will rise, and inflation generally will accelerate, interest rates will rise, further discouraging spending, and we may see stagflation once again. Michael Mandel, economics editor at *Business Week,* has written a very pessimistic book, *The Coming Internet Depression,* which paints a bleak future for the New Economy. Whether such fears materialize remains of course to be seen.

There are other areas for concern. Part of the New Economy was the financial innovation of the 1990s that produced a host of new instruments that were eagerly embraced, but which have yet to stand the test of a downturn. While the ninety-plus trillion dollars in notional value of derivative contracts exaggerates their importance, the existence of such contracts, and the likelihood that in a real downturn many of them would not be honored, suggests that the meltdown threatened by the near demise of Long Term Capital Management, the highly leveraged firm run by Nobel prize-winning financial economists and rescued through Federal Reserve intervention in 1998, may prefigure far worse. As commercial banks become less important as a source of funding relative to capital markets, it will be harder for regulators to arrange workouts when developing countries threaten the next round of defaults. Indeed, the banks themselves have become major bettors, getting a larger and larger share of their profits from high-risk loans. For Chase, venture capital earnings were 22 percent of their 1999 net income, a remarkable figure suggesting the risks involved for major financial institutions, and for the rest of us who live in their shadow.

The New Economy, which in the 1990s was to have signaled a leveling of corporate structures and an end to the power of existing firms (challenged by brash upstarts who threatened to come from nowhere and "eat their lunch"), looks somewhat different now. Mergers and acquisitions form a record breaking wave of concentration and centralization akin to and surpassing those at the turn of the last century. We are now seeing cross-border mergers and

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strategic alliances representing fantastic increases in economic and political power. The New Economy is very much a reality, but the reality is that of runaway growth in the power of capital at the transnational level. *This* is the reality of the New Economy that calls out for attention and a response.

While Washington argues over how much to cut taxes for the corporate rich based on bogus ten-year forecasts, the real needs of working people for health care, education, and social welfare spending go unmet. It is after all the same old economic system.

NOTES

1. "New Economy, new questions," *Financial Times*, February 8, 2001, p. 14.
2. David S. Landes, *The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present* (Cambridge: Cambridge University Press, 1969), p. 3.
3. Ibid., p. 57.
4. David Coates, *Models of Capitalism* (Cambridge: Polity Press, 2000), p. 256.
5. World Bank, *World Development Report 1995; Workers in an Integrated World* (New York: Oxford University Press, 1995), pp. 7-8.
6. Stephen S. Roach, "The Recession We Need," *New York Times*, January 4, 2001, p. A27.

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The "New" Economy and the Labor Movement

by Michael D. Yates

A New Economy? Today, we hear a lot of talk about the New Economy, much of it unsubstantiated and hyperbolically stated. In the United States, for example, consumers are supposedly concerned, as never before, with high-quality goods and services tailored specifically to their individual needs. Rapidly changing technology continually creates new, high-quality products, so consumer needs are perpetually changing as well. This rapid change places new demands on businesses. They must be maximally flexible, capable of changing product lines quickly, and able at all times to meet discerning and highly individualized consumer needs. Everything must be geared to customer satisfaction; a firm that does not quickly and consistently please its customers will lose business sooner than at any time in the past. The tremendous range of choices available means that customers will not be loyal to any company that cannot offer speedy gratification. Recently an Internet book company opened that promised same-day delivery!

What makes possible the new discernment of consumers is the new electronic technology. Programmable machines, robots, and high-speed computers make it possible for companies to produce profitably relatively small quantities of output and speedily to change this output, as well as more efficiently coordinate purchases, production, and sales. Firms stuck with the mass-production technology of old, with its enormous fixed capital and rigid assembly lines, are doomed to lose the competitive struggle. Firms have to be free, therefore, to innovate so that they can rapidly intro-

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duce new technology and products to satisfy swiftly changing consumer demands. As former secretary of labor Robert Reich, envisions it, cutting-edge firms will consist of a small core of highly skilled managers and very limited production facilities.[1] They will maintain numerous, flexible relationships with the subcontractors supplying and hiring the workers who will do the work. These subcontractors may, in turn, contract out part of their work, and at the bottom of the chain of subcontracting will be millions of hypermobile and super-skilled independent contractors.

In the New Economy, unskilled workers need not apply. Flexible production using advanced electronic technology requires flexible, highly trained workers. Such workers will not only have a lot of education, but they will also be constantly retraining themselves to learn the nuances of ever-changing technology. Management guru Tom Peters said on a radio talk show recently that even in such heavy industries as steel, in which the product was once produced in hot, dirty, and noisy mills by workers with strong backs and weak minds, work is now done in clean, technologically advanced workplaces by highly skilled "brain" workers. Needless to say, what is now true for heavy industry, in this respect, is even more true for the service-producing industries now absorbing about four-fifths of our labor force. Here, there is, according to one writer, "a return to a contemporary version of a craft economy, where the most valued contribution is the skill of the worker. The new crafts workers are business managers, consultants, and marketing and financial experts as well as scientific and technical researchers and computer specialists."[2]

The new skilled workforce must be treated with respect by the employer and made a full participant in the running of the enterprise. Modern management now focuses on the team nature of production, and workers, often called "associates," are no longer treated as hands to be manipulated but as members of the corporate team. Indeed, employers now routinely concern themselves with the development of the whole person and urge workers to think of the company as a place where their social life and their work life merge into a creative whole. Stock options and profit sharing further merge the interests of associates and firm.

The New Economy is a global economy. Capital now moves around the globe in search of profits more rapidly than ever before.

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Both finance capital, which traverses the globe at warp speed, and physical capital, which moves more slowly but still fast enough, are no longer bound within the confines of any nation. Information technology allows business to move from high-cost to low-cost places and to integrate production into a worldwide input-output chain. An insurance company headquartered in the United States can have its clerical work done by home workers in western Ireland. Computer programmers in India can design programs for use anywhere in the world. Globalization also means that the nation-state is no longer capable of regulating capital. Just as soon as one nation tries to control capital, capital leaves that nation, forcing it to back down and eliminate the controls. Capital, in other words, is steadily transcending the nation-state.

Finally, the more frenzied champions of the New Economy believe that modern technology is beginning to raise productivity so substantially that we are now at the beginning of a long-term economic boom of unprecedented vitality. As the editors of *Business Week* put it, "Revolutionary technology and rapid globalization … will send productivity soaring, allowing faster growth with low inflation and modest unemployment. This dynamic could last for decades, bringing unimagined prosperity worldwide."[3] As the New Economy grows, millions of new stakeholders will be created, property owners either by way of stock holdings or pension accounts.

No Room for Unions

The New Economy is not hospitable to labor unions. Either they are no longer capable of protecting the interests of working people, or, if they are to have any role in this world of constant flux and change, they will have to reconstitute themselves thoroughly. Historically unions have been instruments of class struggle; their basis is the idea that the interests of workers and employers are irreconcilably opposed. Because capitalism renders them impotent, individual workers must join together in a common mass to confront their employers and secure from them through struggle improved wages, hours, and terms and conditions of employment, as well as dignity and respect. But in the New Economy, all of this is changed.

A strong case can be made, with respect to each of the aspects of newness discussed above, that labor unions are anachronisms. In

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the New Economy, we are told, people identify themselves primarily as consumers, ever on the lookout for new and better products to enhance their lives. Each person is a unique individual trying to develop his or her full potential as an individual human being, mainly through consumption. Notions such as solidarity and common rule, the bedrock of union consciousness, are alien to the singular consumer. Unions imply the loss of the individuality so prized in the New Economy. To the extent that people have any group identity at all, it is as members of generic interest groups. People are supportive of a clean environment, in the sense that they will take it upon themselves as individuals to be less wasteful, to recycle, to join wilderness clubs, to erect gardens, and so forth. Or they are in favor of good schools, mainly so that their children can grow up to be winners in the New Economy. Or they are physical fitness buffs, eating healthy foods and exercising, so that they can be consumers for a long time. Unions are not necessary for people to do any of these things, and they may appear detrimental to a clean environment (as when the miners' union opposes a judge's ruling against the corporate destruction of an Appalachian mountaintop) or to good schools (as when the teachers' union opposes the regular testing of public school teachers).

As workers, people will find themselves in one of two circumstances in the New Economy. They may be independent contractors, busy investing in their "human capital" as they make themselves consistently employable. These folks will consider themselves to be more akin to sole proprietors than to workers. They may network with similarly situated persons, but they will not show solidarity with them. In fact, to do so would be dangerous, as each mini-entrepreneur is in competition with every other one. Individual independent contractors moving from one job and one place to another and thinking of their pay not as a wage but as a price for their services will be inhospitable to the idea of a labor union.

If, on the other hand, people find themselves in an actual workplace, they will find that in the new workplace employers have created such a worker-friendly environment that most employees will find unions unnecessary. Firms today have flatter hierarchies than in the past, and this means that the distance between employer and employee is not nearly as great as it used to be. Employers now see

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themselves as providing a workplace in which "associates" can achieve personal growth both inside and outside the workplace. As one scholar put it, the supervisor is no longer a boss but "a meaningful matrix for interpersonal communication." Employers encourage associates to identify with the company by providing them with a panoply of benefits, such as on-the-job training, stock options, profit sharing, and pay for on-line and in-class education. They also furnish amenities such as recreational facilities, social events, and various types of counseling. Why join a union and pay dues to obtain what the employer is already providing? Not long ago, I visited a glass factory in Meadville, Pennsylvania, to help some of the workers form a union. It was interesting to see that the youngest workers, those who grew up in the New Economy, liked being called "associates" and clearly identified with the company and not the union. To them the union was the enemy of their plant, and workers in other companies, even workers in other plants of their company, were their enemies.

Even those workers who do not buy into the concept of company loyalty may still sympathize with the employer. They may hop from employer to employer seeking ever-increasing wages and benefits, and in the back of their minds will be the goal of becoming entrepreneurs themselves in the near future. Such workers are not likely to form unions. They certainly will not want to be stifled by union seniority and work rules; they will want to be judged on their individual merits, and they will want to be free to try their hand at any job available.

The global nature of the New Economy is hostile to unionization. Mobile capital will simply run away from unions or create conditions in which they cannot survive. Manufacturing plants in the United States will move to Mexico or some other low-wage haven whenever their labor costs increase too much. If U.S. computer programmers form a union their work can be contracted out to programmers in India or China at a fraction of the cost. As I have already noted, all sorts of clerical work can be shipped overseas or to women working at home here. And if a government should enact legislation that protects workers or makes it easier for them to organize, capital in both its financial and physical forms will leave the country, compelling the government either to accept a faltering

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economy or rescind the legislation. International labor organizations might seem to be a solution to these problems, but the barriers in terms of language, culture, and distance make this an unlikely prospect.

Finally, if we are in the midst of an unparalleled burst of productivity growth propelling the economy into a future of unprecedented prosperity, there is no need for workers to form unions. As people make investment in their "human capital" by going to school, make themselves computer literate, and take advantage of corporate training programs, their wages will automatically rise and they will eventually be able to cash in their stock options. It is axiomatic in neoclassical economics (the economic theory of the New Economy) that as worker productivity rises, wages rise too. This is because in a period of strong economic growth employers will be forced to bid for these highly skilled workers, and market forces will naturally bid up wages. In such an environment class struggle is a waste of time and effort. All workers have to do is become more productive and ride the economic gravy train.

The Social Democratic Objection

The notion that unions are unnecessary in the New Economy does not sit well with a certain type of liberal, or social democrat, as such a person is called outside of the United States. Among these liberals are not only politicians but also thousands of scholars in the field of industrial relations. While firm believers in and proponents of the New Economy, social democrats still argue that unions can and should be an important component of it. Unions can overcome certain inefficiencies inherent in the marketplace and actually make the New Economy grow even faster, while at the same time helping individual workers to fulfill their goals more easily and at less personal cost. However, to do these things unions will have to be completely transformed. New unions will be needed in the New Economy.

Liberals and social democrats argue that unions will have to cooperate with employers, preferably under the aegis of the state, to create an economy that can win the competitive struggle for markets. That is, unions must help employers to shape a competitive advantage in global markets. By doing this, unions can actually enhance

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the ability of individual workers to help themselves. The advantage of having unions involved in the New Economy is that they keep employers on their toes and prevent them from taking the "low road" to profitability: low-wage workers producing poor or average quality goods (profitable in the short run perhaps but not over the long haul). In a recent book, three industrial relations experts from universities in London summarize this position nicely:

> Kochan and Piore [names mentioned in this paragraph are those of industrial relations scholars] suggest that union leaders will have to be more active in joint efforts with employers, to bring individual employees more directly into the process of decision making on shop-floor issues that affect their jobs, and to adapt current rules to the demands for more flexible and productive work systems. In addition, union leaders will need to continue to press for more access to, and participation in, high-level management planning and decision making, before decisions are made. Stanley Crouch suggests that if employers seek to construct a new company-level personnel policy, the challenge for the unions is whether they can make themselves useful to workers by being involved in the new channels of participation being constructed. If the union response is the negative one that such channels fail to give workers real power, it is quite likely that workers themselves will find the personal level of involvement useful and in some respects preferable to the more bureaucratic form of standard union representation. Wiser than outright opposition to such participation would be a union strategy for providing services to enable workers to make the best use of it. The extreme case of a more integrative model of union-employer relations would be a productivity coalition with the emphasis on union-management cooperation to improve company performance.[4]

The focus, then, for the new unions must be on individual workers and individual company performance. Specifically, unions can help to negotiate and to finance contract provisions that provide skill training for workers, and unions can begin to provide an array of personal services to members. These latter might range from legal, health, and travel services to personal counseling, credit cards, and credit unions. Unions must win a seat at the table of corporate decision making by gaining membership on corporate boards and other high-level committees, so that they can play a role in corporate policy as it is made and not after the fact.

Unions can help employers attain greater flexibility in many ways. They can agree to eliminate job descriptions and allow employers to

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assign workers to a variety of jobs. New employers have been promoting multi-skilling for workers, and unions can support this. Unions can encourage employers in their efforts to achieve greater time flexibility through the implementation of longer work shifts and more elastic shift scheduling, and they can agree to allow the employer to schedule mandatory overtime, albeit at premium pay. Unions can accommodate more numerical flexibility by lessening their opposition to contracting out and employer use of part-time and temporary workers. In terms of the explicit productivity agreements described at the end of the above quotation, United Auto Workers consultant and scholar Barry Bluestone once recommended that the UAW guarantee contractually a six percent annual increase in labor productivity!

If unions do all of these things, they will help their national capitals compete globally and thereby insure that their members will not be displaced by international competition. In addition, if unions forge a tripartite alliance with national capital and the nation-state, they can promote the establishment of global labor standards, taking labor out of competition to a certain extent by not allowing corporations to take the "low road." For example, a labor-capital-state alliance in the United States can fight for at least minimum labor standards in trade agreements (NAFTA, etc.) and in the operations of international trade organizations such as the IMF, World Bank, and the WTO. Where nations form common markets (as in the European Union), a similar alliance can help to establish labor standards (*à la* the Social Charter) across national boundaries.

Unions can be of obvious importance during the coming economic boom. Social democrats are not as optimistic as the neoclassical economists that rising productivity will automatically raise wages. Collective bargaining, in a climate of labor-management cooperation, can ensure that the gains of productivity are fairly shared between capital and labor. And a tripartite alliance of capital, labor, and state can assure that economic growth will enhance the ability of the government to provide adequate social programs.

Debunking the New Economy

Of course, there is some truth in the argument that we live in a New Economy. Computers have changed things, making possible,

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for example, the almost instant transmission of powerful advertising messages to the far corners of the earth. Certainly, computers have at least laid the groundwork for large future reductions in certain costs of production. And the work reorganization taking place in the New Economy has altered the labor-management relationship for some workers. However, to a significant extent, the New Economy argument is very much exaggerated. Consider for a third time the aspects of the New Economy described above.

The idea that business firms must become super-flexible and rely upon highly skilled workers because consumers have become ultra-discriminating seems preposterous on its face. No doubt, many, even most, people in a capitalist society identify happiness with consumption, but this is something to combat not something to which we should accommodate ourselves. As for discriminating consumers ready to jump ship at the slightest inconvenience, what are we to make of the ubiquitous fast-food shops and convenience stores, all of which sell the most standardized products imaginable? How do we explain the thousands of Gaps, Banana Republics, and Old Navys, just to name a few of the multitude of purveyors of standardized products of every type? Yes, we can buy a "customized" computer, but this is hardly the same thing as a custom-made suit made by a skilled tailor. What is usually meant by customer-tailored goods is a mixing and matching of already standardized parts. And yes, we have a choice among sometimes hundreds of kinds of soap, or deodorant, or CD players, or cars, but these are ordinarily made by a relatively small number of companies and differ more or less incrementally (or in terms of branding, packaging, etc.) and not qualitatively. Before the First World War, there were several hundred daily and weekly newspapers available to consumers in Berlin. Where can this be said to be true today?

The prototypical business of the future envisioned by Reich is surely a product of his fevered fancy. Technology has allowed some businesses to become smaller, to change product lines rapidly, and to utilize various types of "contingent" workers. But employers still universally apply the principles of mass production, relatively large runs, and Taylorist management, and they will continue to do so into the distant future. Assembly lines are not going to disappear any time soon, whether it be in the production of cars, computer

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chips, motors, VCRs, smoked herring, or chicken. A minority of the workforce is comprised of part-timers, temps, independent contractors, and workers laboring in their homes.[5]

As Kim Moody and others have argued, what is happening in workplaces worldwide is the steady introduction of "lean production," a managerial control system pioneered by Japanese automobile companies.[6] The New Economy adherents have a completely incorrect understanding of this phenomenon. To them, new management has abandoned Taylorism and substituted more humane and worker-centered factories and offices. The truth of lean production, however, is quite different. A flattening of certain internal corporate hierarchies does not mean that the overall distance seperating workers and employers has been lessened.

Rather, lean production means that the much-praised work teams are now responsible for solving every imaginable workplace problem. The lean workplace is one in which constant stress is placed upon the teams (or individual workers) through speeding up assembly lines, reducing the number of workers, and taking away materials. Then the workers are expected to keep up production. After they figure out how to do this (and as management through quality circles or team leaders discovers how the workers do this and incorporates this knowledge into the work routine), the production system is stressed again, and then again, and again, in a never-ending cycle of small improvements (this is called "kaizen" in Japanese). As much work as possible is subjected to a rigorous Taylorization before production begins, and this rationalization and routinization continues afterwards as workers time-study each other's jobs. Workers learn as many of these routine jobs as possible, so that management does not have to maintain a full complement of workers in the event that some team members are absent from work. Inventories are kept to a minimum through the technique of just-in-time inventories, further stressing workers who can no longer rely upon stocks of spare parts to keep production up when problems occur. As much indirect labor (building component parts, janitorial work, etc.) as possible is contracted out.

Lean production aims at the maximum extraction of labor from human labor power, that is, at compelling workers to work with peak intensity for as many hours as possible. In automobile plants,

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for example, employees often work fifty-seven seconds out of each minute. It has nothing to do with empowering workers or making them more skilled, much less allowing them to make basic managerial decisions. The high-skill, high-wage workplace of the future is a pipe dream. Consider that six out of the ten occupations estimated by the U.S. Bureau of Labor Statistics to have the largest job growth between 1998 and 2008 are retail salespersons, cashiers, light and heavy truck drivers, general office clerks, personal care and home health aides, and teacher assistants. Among the other four are registered nurses and computer support specialists, both jobs susceptible to, and in the case of nurses, currently subject to, Taylorization and its guaranteed de-skilling. In fact, almost no jobs are immune to some form of lean production, so it is hard to see how even the highly skilled technical jobs associated with the electronic revolution will not ultimately show an erosion of skill. E-commerce is all the rage today, but by its very nature, most of the skilled work involved in it will eventually be embedded in software or carried out by unskilled clerical workers laboring in tiny cubicles in windowless buildings around the globe or in their own apartments and homes.

On closer examination, globalization turns out to be something less than the "end of history." While I would not go so far as to say that the entire globalization thesis is a hoax based on faulty data, I do think that it overemphasizes the power of capital, and the weakness of labor and the state. For example, in certain ways capital is no more global now that it was before the First World War. Technological revolutions at least as important as the computer sped up trade then too, and finance capital moved around the globe with great speed. Further, much of the increased mobility of capital is the consequence not of unstoppable technical change but of conscious political decisions. Governments everywhere have been busy deregulating capital (and at the same time policing workers, so that they cannot easily revolt against the consequences of capital deregulation) through trade agreements and domestic legislation. In principle, what has been deregulated can be re-regulated through various forms of capital controls and legislation. Without such deregulation on both sides of the border, the *maquiladoras* would not be possible.

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Not all capital is especially mobile. In manufacturing, fixed capital investments are often quite large, and employers will normally choose to depreciate this capital fully before considering a move. So, for some period of time the capital is not mobile, and therefore not immune to efforts by workers to improve their circumstances. Such capital might also choose to locate close to consumer markets, the largest of which are in the advanced capitalist countries and not in the poor nations to which it is assumed that capital is increasingly tending to migrate. Much service and government production is similarly not very mobile. Office buildings, fast-food restaurants, roads, bridges, and schools are pretty much stuck in place. A fast-food hamburger consumed in Pittsburgh cannot be made in Mexico.

Even where capital is moving, it is not moving effortlessly around the globe. Instead, production is clustered in what Kim Moody calls "triads," three distinct geographical areas dominated by the United States, the European Union, and Japan, respectively. That is, capital invested in poor countries by U.S. corporations tends to go disporportionately to countries not that far away from the United States mainland. This means that it is conceivable that workers in the United States might find it feasible to engage in acts of solidarity with workers in the poorer nations. Increasingly, workers in different nations within the triads face the same employers, so it is possible that they will be able to coordinate their actions against them.

The belief that the New Economy is in a period of unprecedented productivity growth, fueling an endless prosperity that cannot be sustained by the evidence. No capitalist economy has ever expanded without periodic crises. What evidence is there that this boom will be any different? Here every aspect of the New Economy argument can and has been challenged. Not all economists are convinced that there is, in fact, abnormally high productivity growth. Not all economists think that the computer revolution has generated or can generate such growth. Not all economists agree that the current boom is anything special at all; in terms of standard measures such as per capita income growth and capital investment, it is weaker than many past expansions, and there are ominous signs of overextended consumer and corporate debt and an unhealthy

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balance of payments deficit. As I write, the economy is verging on a recession, and high-tech companies are tanking every day. The NASDAQ index has dropped by 50 percent, and those vaunted stock options are now worthless. And, finally, if productivity is increasing, history gives us no indication that wages will rise proportionately. Real wages fell from the early 1970s through the mid-1990s, yet productivity continued to rise. It is wishful thinking to say that a growing economy raises all incomes or that all will share equally in the growth.

Unions Are Needed Now More than Ever

If the New Economy is not so new after all, then arguments that unions are no longer necessary or that unions must reinvent themselves to fit the New Economy lose their cogency. How are workers to protect themselves from the negative effects of lean production? How are workers to combat the corporate-state alliance that has wreaked havoc on their living standards, through trade agreements, anti-labor legislation, refusal to enforce labor laws, the destruction of the welfare state, and the privatization of public services? How are workers, including especially those who are contingent, going to make themselves more secure, guarantee safe workplaces, and ensure their futures?

The truth is that in the most fundamental sense, i.e., social relations, there is nothing new at all about today's economy. Capitalists are busy accumulating capital in a context of intense competition. This capital accumulation is made possible by the extraction of surplus labor time from workers. When capital accumulation slowed down markedly in the early 1970s, capital went on the attack, scrapping any "accords" it had with organized labor and intensifying its pressure on the state to clear the way for more rapid and profitable accumulation. Rapid technological change is a hallmark of capitalism as is the use of technology to promote, first and foremost, the maximum accumulation of capital. Sometimes, new techniques generate new skilled occupations, but the logic of the system, the need for capital to control the labor process so that the surplus labor time can be extracted, dictates that capital will always seek to find ways to reduce its dependence on skilled labor. For every new craft, there is an old one undergoing rationalization.

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Ellen Wood argues that capitalism is all about market dependence; we are all dependent on the market not just for the necessities of life but for our livelihoods.[7] Today, capital accumulation and its market dependence are reaching into the far corners of the earth and into the most personal parts of our lives. This, if anything, is what is most new about the New Economy. With this universalization of market dependence comes the monetization and depersonalization of daily life, alienation at work, the production of debased products, unemployment, and the objectification and destruction of the environment. Labor unions and labor movements have historically been important vehicles for ordinary people to fight against these inevitable consequences of market dependence, and this is as true today as at any time in the past. An unimpeded capitalism must surely be a nightmare to any sane person.

But if unions are badly needed human defense mechanisms, what sort of unions should they be? There is much room for improvement in the house of labor, but surely the social democratic vision for unions is a recipe for disaster. The U.S. labor movement fell on hard times when it abandoned the class-conscious unionism of the 1930s and early 1940s and embraced labor-management cooperation, and while it has returned to a more militant stance recently, it is still locked into the twin ideologies of cooperation and alliance with the Democratic Party. If it embraces the position of the New Economy gurus, it will simply espouse the stance of labor's class enemy. It will concede that which has to be contested, namely universal capital accumulation and all that this implies.

A new labor movement must be one that recognizes and takes as its basic position that nothing is inevitable. Capitalism and market dependence were themselves not inevitable. And neither is rampant and destructive capital mobility, nor trade agreements, nor lean production, nor unemployment, nor any of capital accumulation's many other evils. These are all products of human agency, and as such can be fought against and conquered. To do this, however, a labor movement must know what it is fighting; in the words of Gerald McEntee, President of the American Federation of State, County and Municipal Employees, in Seattle at the WTO protests, it must "Name the system." And once it does this, it must struggle toward an alternative to this system. It must, in a nutshell, construct

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an anti-capitalist and pro-worker ideology and organize around it.

I envision a new labor movement as one that embraces a struggle for at least the following: (1) employment as a right; (2) meaningful work with maximum integration in every job, of our uniquely human capability to conceptualize and carry out work tasks, and a sharing of society's more onerous tasks; (3) a good deal of consumption fully socialized, including education at all levels, health care, care for the aged, child care, transportation, and recreation; (4) maximum democratic control of production, whether by workers or communities or both; (5) hours of work as low as possible; (6) work as nondestructive of nature as possible; (7) no discrimination of any kind; and (8) equality (not just some sham equality of opportunity) seen as a good in itself.

To begin such a movement and to propel it forward it will indeed be necessary, as the social democrats urge, for unions to be more responsive to their members. But this means far more than the weak social democrat (or liberal) prescription. It means a thorough shake-up of business as usual. It means nothing less than the complete democratization of the labor movement, and the spreading of this democratic impulse to encompass the workplace, the nation-state, and the world.

NOTES

1. Robert Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* (New York: A.A. Knopf, 1991).
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4. Mike Rigby, "Approaches to the Contemporary Role of Trade Unions," in Mike Rigby, Roger Smith, and Teresa Lawlor, editors, *European Trade Unions: Change and Response* (London: Routledge, 1999).
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The Disposable Worker

by Ken Hudson

During the late-1990s the United States experienced rapid economic growth. But while the unemployment rate by 1999 had fallen to its lowest point since the 1960s, the number of contingent and nonstandard workers reached an all-time high.

The term contingent refers to jobs that are of limited or uncertain duration. Nonstandard refers to any work arrangement other than a full-time wage and salary job. Overall, nonstandard jobs are far more likely to be contingent than are regular jobs. Consequently, the two terms are often used interchangeably.[1] Contingent and nonstandard work often involve the participation of an employment intermediary. This is an arrangement where an individual works for one firm but is actually employed by another, such as a temporary help agency. While the number of workers employed by employment intermediaries still comprises a relatively small percentage of the workforce, the total share of workers employed in this manner is rising rapidly.

Because of increasing concerns about the growth of the contingent and nonstandard workforces Congress directed the Bureau of Labor Statistics (BLS) of the Department of Labor in the early 1990s to conduct studies of these groups. The Contingent Work Supplement to the February Current Population Survey began in 1995 and is now conducted every two years. Since BLS has only recently started collecting data on these workers, information about the size and growth of the nonstandard and contingent workforce is very sparse. Nevertheless, other data from the Current Population Survey and data from the National Current Employment Statistics Survey indicate that an increasing portion of American workers are

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employed in some type of nonstandard work arrangement. Moreover, this increase has come from that part of the nonstandard labor market that has the greatest representation of bad jobs. For example, between 1972 and 1998 the share of workers who are classified as part-time by the Department of Labor rose from 15.7 to approximately 18.0 percent of the workforce.[2] The percentage of workers located in the personnel supply service industry increased from .3 percent to 2.4 percent. In contrast, the overall share of workers who are self-employed, one of the better categories of nonstandard work, actually declined from 8.7 to 7.8 percent. While part-time workers, and workers located in the personnel supply industry,[3] do not constitute the entirety of the nonstandard workforce described below, the combined growth of these categories suggests that the portion of American workers who are working in contingent and/or nonstandard jobs is increasing.

TABLE 1

NONSTANDARD AND REGULAR WORKERS AS A PERCENTAGE OF ALL WORKERS	
Nonstandard	31.3
Regular	68.7
Total	100
CONTINGENT AND PERMANENT WORKERS AS A PERCENTAGE OF ALL WORKERS	
Contingent	8.4
Permanent	91.6
Total	100
CONTINGENT OR NONSTANDARD WORKERS AS A PERCENTAGE OF ALL WORKERS	
Contingent or Nonstandard	35.30
Regular and Not Contingent	64.70
Total	100

Source: U.S. Census Bureau, Current Population Survey, Contingent Work Supplement (February 1997), Contingent Work Supplement [computer file].

Overall, nearly one out of three American workers are employed in a nonstandard job. Contingent workers constitute more than 8 percent of the workforce and the total share of workers who are in either nonstandard or contingent jobs is approximately 35 percent (see Table 1). Nonstandard work encompasses a wide variety of different work arrangements, ranging from day labor to self-employment. Table 2 shows the distribution of nonstandard workers across these different arrangements. Self-employed workers make up more than

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25 percent of the nonstandard workforce. Almost half of all nonstandard workers are employed in part-time wage and salary jobs.

While nonstandard workers are found in all industries, they are most heavily concentrated in retail trade and services. Table 3 shows that nonstandard workers also have a much higher representation in non-professional services than regular workers. In contrast there are 3 to 4 times more regular than nonstandard jobs in the manufacturing sector. This suggests that the growth in nonstandard jobs since the 1970s in large part reflects the shift from manufacturing to services.

TABLE 2

NONSTANDARD CATEGORIES AS A PERCENTAGE OF ALL NONSTANDARD WORKERS	
Temporary Help Agency	3.28
Day Laborer	—
On call, no regular hours & other	2.99
On call, regular hours	1.84
Contract Company	4.14
Independent Contractor, Wage & Salary	2.47
Independent Contractor, Self-employed	18.83
Self-employed, Other	16.40
Other Personal and Supply Company	0.67
Regular Part-time	49.32
Total	100

Source: Same as Table 1.

Nonstandard Work, Substandard Jobs

While nonstandard jobs are not always substandard jobs, more often than not they are. When measured against regular full-time wage and salary jobs, nonstandard jobs are much less likely to provide pensions, health insurance, and job security, and much more likely to pay low wages. About 74 percent of nonstandard workers have no employer-provided health insurance or pensions. Comparable percentages for regular workers are around 30 and 40 percent respectively. Nearly 40 percent of nonstandard workers are in the bottom (lowest fifth) of the wage distribution versus 12 percent for regular workers. Finally, if we examine that segment of the labor market that constitutes the very worst jobs in America, jobs that combine low wages with the absence of fringe benefits and job security, we find that about 70 percent of these jobs are filled by nonstandard workers.

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Such nonstandard jobs include a variety of work arrangements. Not all of these jobs in these categories are bad. They run the gamut from day labor, temporary help agency employment, and part-time work, to jobs provided by contract companies, independent contracting, and self-employment. Some self-employed workers actually have average wages that are higher than those of traditional workers. Nevertheless, there is a much greater degree of wage inequality in this group than for workers as a whole. The economic benefits received by small employers also appear to be dependent upon the labor of those who work for them. Moreover, a significant portion of those who claim to be to be self-employed report no earnings. Many of these workers are, for all practical purposes, unemployed.

TABLE 3

PERCENTAGE OF REGULAR AND NONSTANDARD WORKERS IN INDUSTRY SECTORS

	REGULAR	NONSTANDARD	ALL WORKERS
Agriculture	1.26	4.70	2.33
Mining, Forestry, and Fishing	0.72	0.32	0.59
Construction	5.44	7.69	6.15
Manufacturing	21.49	5.88	16.60
Transportation, Communications, Public utilities	8.13	4.53	7.00
Wholesale Trade	4.43	2.66	3.88
Retail Trade	12.97	24.02	16.43
Non-Professional Services	15.60	22.21	17.67
Professional Services	24.10	26.54	24.86
Public Administration	5.85	1.45	4.47
Total	100	100	100

Source: Same as Table 1.

Among the worst-off nonstandard workers are day laborers. This group of workers is so marginal that in 1995 the Contingent Work Survey, conducted by the Census Bureau for the Department of Labor, only managed to collect data on thirty-five of these individuals. In 1997 this number dwindled to twelve. These are the workers who are collected in the backs of pickup trucks in the morning and dropped of with their wages at the end of the day. Many immigrant workers, especially those who are undocumented, work as day laborers. Sometimes they are paid through a worker with documents who contracts with their de facto employer. The employer will pay the documented worker a fixed amount, which is then dispersed through the documented worker to the other workers who have no

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papers. Day laborers are also, on occasion, harvested from homeless shelters by labor supply firms. The alcohol and drug dependency of significant numbers of these workers helps to ensure their preference for daily wages over more long-term work arrangements. This short-term work arrangement enables these workers to maintain their addiction to drugs or alcohol while providing an eager and willing, if not entirely reliable, supply of cheap labor.

Self-employment and day labor, along with part-time work, are nothing new. These kinds of nonstandard work arrangements do not usually involve the participation of an employment intermediary. This is also true for many on-call workers and direct-hire temps who are actually employed by the firm where they do their work. In contrast is the growing phenomenon of temps and contract company workers who work for one firm but who are actually on the payroll of another company. While these jobs are not necessarily the worst of the nonstandard lot, in some ways they may be the most ominous because they involve an employment intermediary. Employment intermediaries, also known as co-employers, fundamentally alter the structure of the employment relationship. Employment intermediaries save firms money by reducing their personnel recruitment and training costs. They also provide quick and easy access to workers seeking to enter low-wage job markets. But the cost of this increased access to employment is paid by temps and contract company workers in the form of lower wages and benefits.

Contract Company Workers

Of the two forms of nonstandard work involving employment intermediaries, contract company work is by far the least egregious. Contract companies often work for firms and institutions that have decided to outsource a part of their operation. In the 1980s political conservatives promoted the privatization of public services, arguing that government should be run like a business. Consequently many public institutions and organizations began outsourcing the work of entire departments to contract companies. This approach is attractive to public agencies, because it often costs host institutions less to outsource for these services than to provide them directly. But these savings are savings that come with a price, namely, a loss of organizational control and public accountability. Firms can out-

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source their need for labor in two ways: they can send the work to firms outside of the organization, or they can literally bring another firm inside of their own. This last practice often has the effect of creating a two-tiered labor market—one for workers employed by the host organization and another for those employed by the contract-company providing services to the host. It should be noted that the jobs provided by contract companies are frequently much better than the jobs found in other types of nonstandard work. However, these jobs are almost always worse than the regular jobs provided the host organization.

Temporary Help Agencies

Unlike contract companies, which supply large groups of workers to a given firm on an ongoing basis, temporary help agencies provide firms with individual workers on an as-needed basis. In doing so they allow customer firms to convert labor from a fixed to a variable cost. Here the organizational context is critical, because temps lack the contractual and institutional protections that make contract-company jobs more similar to those found in regular employment. For example, if a public university is dissatisfied with the food service provided by a contract company, the contract company can, in theory, be replaced with another. But this is not something that can happen quickly and the switch to another contract company might incur significant cost for the university. Temps on the other hand can be replaced easily at little or no cost to the host firm. A phone call is made and someone else will report to work the next morning, no questions asked.[4] Temps are the just-in-time workers of the American labor force. And when the need for their labor runs out, they can disappear as quickly as they came.

Temporary help agency work has its roots in firms like Kelly Girl Services that grew in the 1960s as clerical work became an increasingly larger portion of the American workforce. In many respects, temps are the ultimate disposable worker. Outside of day labor, these jobs are at the very bottom of the job quality barrel. The wages are very low and the benefit packages offered by these agencies are for the most part fictive. In 1997 around 95 percent of the workers in the jobs lacked employer-provided health care coverage. On those occasions when it was offered, it was usually on terms that the

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temp workers could not afford or otherwise meet. In addition, less than 4 percent of these workers received any sort of pension or retirement benefits.

Although these jobs are promoted by temp agencies as a way for workers to get their foot in the door of prospective long-term employers, the evidence does not support this claim. Data from the Contingent Work Supplement to the Current Population Survey show that very few temp workers manage to convert their temp jobs to full-time employment with the same company. To the contrary, temporary work is structured to reduce the likelihood that this will occur. Firms frequently use temp workers to avoid the cost of wage and benefit packages provided to regular workers. Conversion of temp jobs to regular jobs is also contrary to the interest of both the customer firm and the interest of the temp agency. Customer firms are sometimes required to enter into contracts that prevent or penalize them from hiring the workers supplied by the temp agency.

Why So Many Nonstandard Jobs Are Bad

Moving beyond the recognition that many, if not most, nonstandard jobs are lousy, we must ask: Why? Much of the research on contingent and nonstandard work, including my own, has been largely descriptive. Beyond the obvious fact that these work arrangements increase the profits of firms that use them by decreasing the wages and benefits of the workers in them, the reasons why nonstandard and contingent jobs exist and the reasons why these kinds of jobs are so often bad has not been adequately addressed. I believe the answer to these questions lies in another related but different question: Why do bad nonstandard jobs exist right along beside good regular jobs? This contrast between these two types of jobs is highlighted by the fact that workers in both kinds of jobs are frequently found, not only in the same industry, firm, and occupation, but actually doing the same job.

The research on work and labor markets has produced many theories that attempt to explain why workers are employed in bad jobs. Conservative economists have long argued that low wages and bad working conditions reflect the low investment of human capital by the workers who hold these jobs. The most extreme advocates of this position argue that the poor compensation and lack of job secu-

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rity afforded to many nonstandard workers is the result of their own poor choices. These workers have bad jobs because of their inability or unwillingness to forgo personal gratification and invest in education and jobs skills. This criticism of workers is often extended to families and, in some cases, entire communities. In this paradigm poor economic outcomes can reflect poor choices made by parents, thereby confirming that the sins of the fathers and mothers are indeed visited upon their children. This line of reasoning allows us to conclude that if the people who live in public housing projects really loved their children as we do, they would be sending their kids to good private schools instead of run-down public schools.

Another variation of this argument justifies the poor quality of nonstandard jobs by insisting that they offer young workers a stepping-stone to better jobs by giving them a chance to gain work experience. But there is little evidence that this type of work experience does much to increase the likelihood that these workers will get better jobs. At best doing well in temp jobs means that you have a better chance of getting another temp job. This is also an argument that workers should be willing to subject themselves to an indefinite period of personal and economic hardship just so they can earn the right to work for someone else.

Human capital explanations of why workers are employed in bad jobs fail to consider the impact of supply and demand. If investing in education alone created economic value, then most of the people who write for *Monthly Review* would be rich. That so many academics are now employed as contingent workers is testimony to the fallacy of this argument.

Others argue that workers have bad jobs because of discriminatory work practices. For example, it is frequently held that employers choose to pay women less simply because they are women. If these same jobs were to be performed by men, those doing them would receive better wages and fringe benefits. In variations on this theme, others have insisted that the sex and race composition of a job or an occupation affects the wages and benefits of all workers in those jobs or occupations, regardless of their race or sex. But these theories, like the theory of human capital, are also vulnerable to critiques based on supply and demand arguments. Orthodox economists argue that employers are simply buying labor at the cheapest price

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available. Women and other minorities are paid less, they reason, because they are willing to work for less. Otherwise, employers would be forced to pay them more.

Dual Labor Market Segmentation

What all of these explanations have in common is their inability to take into account the structural dynamics governing supply and demand. A more promising explanation of how the labor market works to produce bad jobs—nonstandard or otherwise—is found in the theory and research on labor market segmentation and split labor markets. It is in this context that we can best understand the existence of contingent jobs, contingent workers, and the contingent lives that they produce. Writing in *Monthly Review* nearly thirty years ago, a group of then young radical economists, Howard Wachtel, Barry Bluestone, and David Gordon challenged the assumptions of economic orthodoxy by insisting that there are two or more fundamentally different segments of the American labor market.[5] Furthermore, not only do these different labor markets produce radically different economic outcomes and rewards for the workers employed in them, these labor markets also operate by fundamentally different sets of rules. In some labor markets, human capital considerations are largely irrelevant. Workers in these markets are easily replaced and little or no effort is made to retain them. The jobs in these markets are typically bad in several dimensions. The wages are low, they offer no fringe benefits, and working conditions are generally poor. Doeringer and Piore referred to these jobs collectively as the "secondary labor market." In contrast, jobs in the other market, which Doeringer and Piore called the "primary labor market," are much better. These jobs typically provide workers with better (if not good) wages, health and pension benefits, and some measure of job security.

Splitting the Labor Market

In the dual labor markets of the 1960s and early 70s there was no doubt about who worked in which labor market. White men dominated primary jobs while blacks, women, and teenagers were, for the most part, relegated to the secondary market. These jobs were called secondary because they were the jobs held by women and

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teenagers whose earnings were viewed as a secondary source of household income. But the recognition by radical economists that millions of black men and women of all ages also worked in this market called attention to the fact that many American families, black and white, depended on the secondary labor market as their primary source of income. Edna Bonacich pointed out that blacks, women, and other economic minorities were consigned to bad jobs because they were not allowed to work in the primary labor market. This market was for "whites [and men] only." Jim Crow and protectionist laws excluded blacks and women from jobs in the primary market. This resulted in an oversupply of workers in the secondary market that in turn had the effect of driving down their wages. Splitting the market along racial and gender lines also prevented blacks and women in secondary jobs from migrating to other parts of the labor market where wages were higher. Unions who controlled the skilled trades and apprenticeships have, at times, reinforced these barriers to better jobs.

A key part of this explanation, which Bonacich did not fully develop, has to do with the fact that within any given firm or enterprise some jobs are simply better than others. These differences exist quite apart from the wages and compensation provided by the job. Although many jobs within a given firm or enterprise are, as Braverman observed, "deskilled," tedious, and boring, there remain jobs that are not. The former offer little in the way of intrinsic rewards while the latter may offer many.[6]

Splitting the labor market can have the effect of reducing labor costs to employers, especially in a tight labor market. The exclusion of workers from primary jobs on the basis of race, sex, or organizational membership means that these workers are forced to seek employment in the secondary market. Because work in the primary market is typically more desirable, motivating workers to accept jobs in the primary market can cost less than inducing workers to accept undesirable jobs in the secondary market. Consequently, the increase in cost incurred by reducing the supply of workers in the primary market is more than offset by the cost savings resulting from the increased supply of workers to the secondary market. The price of labor in the secondary market is forced down by restricting the flow of labor to the primary market. A consequence of this

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restriction is that the relationship between work effort and economic rewards is inverted. Because the wages of workers in the secondary jobs are depressed due to the oversupply of workers in this market, work that is harder and more undesirable actually pays less than work that is less aversive and intrinsically more rewarding. A split market also makes it harder for workers to form labor unions and demand better wages and working conditions.

But employers are not the only ones to benefit from splitting the labor market. Excluding secondary workers from primary jobs also protects the wages and benefits of primary workers. Moreover, to the extent that secondary workers do a disproportionate share of the work while primary workers reap a disproportionate share of the rewards (at least of that portion of the pie that is allocated to labor), we find one group of workers benefiting at the expense of another. Brown and others have documented numerous examples of this type of labor-owner collusion resulting in the exploitation of secondary workers.[7]

Nonstandard Academics

Nonstandard work arrangements facilitate the creation of two-tiered labor markets within firms. They do this by creating two different sets of workers that work under two different sets of rules. When this occurs rewards for work performance are likely to have as much or more to do with the workers' membership status as the workers' qualifications or the actual work they are doing. This is perhaps nowhere more evident than in the academy. Academic contingent workers typically work under a completely different set of rules and expectations than faculty in tenured or tenure track jobs. Besides getting the most undesirable teaching assignments, their pay is also usually only a fraction of that received by regular faculty. Long-term job security for these workers does not exist. In addition to the economic disadvantages faced by these workers there is also the social and emotional toll that is inflicted upon them by their contingent status. They are frequently excluded from faculty meetings and the social life of the departments in which they work. They are, in many respects, invisible. The presence of these work arrangements in the academy is usually justified on the basis of merit or promise. Tenured and tenure track faculty also bear the burdens of

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research and committee assignments. But the opportunities and incentives for non-tenure track academics to engage in these activities are greatly constrained. This defense of privilege resembles the burden-of-management arguments that are commonly used to justify earnings inequality in the business world. Finally, it can be observed that the work performed by contingent academics, like the work of contingent workers elsewhere, is frequently discounted, not because of its quality, but because of the status of those who are doing it.

What is happening in the academy is significant, not because the hardships of contingent workers with Ph.D.'s are comparable to those experienced by temps or part-time workers elsewhere, but because the existence of nonstandard academics calls into question the basis on which many types of nonstandard arrangements are legitimated. In any labor market that is split on the basis of organizational status or membership, the distinction that really matters may not be how hard or how well you work, but whether or not you are in the right category. Such distinctions, whether they pertain to clerical workers or university professors, belie the meritocratic ideology that legitimates the existence of inequality within work organizations.

Nonstandard Work and Labor Market Segmentation

The recognition that there are important divisions within the working class is hardly new. It has also long been recognized that nonstandard work is an effective mechanism for creating these divisions. Although Bonacich and Gordon et al. approached the problem of labor market splits and segmentation from very different perspectives, they all pointed to temporary and contract labor as one of the ways in which employers created these divisions. Doeringer and Piore also acknowledged the same in their seminal work on internal labor markets. A historical perspective on the work of these scholars is important, because, since the time of their earliest writings, the share of workers employed in trade and the service sector has increased substantially, sectors where nonstandard work is, and has always been, most prevalent. These are also areas where unions and labor organizations have had the most difficulty in recruiting new members.

Bonacich and the radical economists also recognized the role of both race and sex in dividing workers. Because these attributes are

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no longer seen as legitimate mechanisms for allocating good and bad jobs, we should expect the employers will rely increasingly on organizational membership or status to accomplish these ends. Viewed from this perspective, at least one implication for public policy becomes quite clear: to the extent that two-tiered labor markets within business organizations are accepted as legitimate, then workers will continue to be forced into substandard jobs. The reversal of this trend will require going beyond the recommendations that have been previously discussed (i.e., improving wages, fringe benefits, unemployment compensation, tax credits, child care; and enforcing affirmative action). Getting rid of two-tiered labor markers will necessitate that the institutions of government and organized labor commit themselves fully to the elimination of these arrangements.

NOTES

1. Anne E. Polivka, "Contingent and Alternative Work Arrangements, Defined," *Monthly Labor Review*, vol. 119, no. 10, 1996, pp. 3-9; Arne L. Kalleberg, Barbara F. Reskin, and Ken Hudson, "Bad Jobs in America: Standard and Nonstandard Employment Relations and Job Quality in the United States," *American Sociological Review*, vol. 65 (2000), pp. 256-278; Ken Hudson, *Poverty and the Secondary Labor Market* (unpublished Ph.D. thesis, University of North Carolina at Chapel Hill, 2000); Ken Hudson, *No Shortage of Nonstandard Jobs, Briefing Paper*, Washington, D.C. ,Economic Policy Institute, 1999; Arne L. Kalleberg, Edith Rasell, Naomi Cassirer, Barbara F. Reskin, Ken Hudson, David Webster, Eileen Appelbaum, and Roberta Spalter-Roth. 1997, *Nonstandard Work, Substandard Jobs: Flexible Work Arrangements in the U.S.* Economic Policy Institute and the Women's Research and Educational Institute; United States Census Bureau, Current Population Survey, February 1997, Contingent Work Supplement [computer file].
2. In 1994 the Department of Labor changed the way in which it classified part-time work. Consequently, the percentage of workers employed part-time is slightly higher after 1994 than it would have been under the old method.
3. Workers in this industry category perform a variety of activities. They may be employed directly or by a temporary agency or contract company. Nevertheless, this industry designation indicates that their current employment is facilitated in some way by a personnel supply firm of some type.
4. Jackie Krasas Rogers, *Temps* (Cornell University Press, 2000).
5. Howard M. Wachtel," Capitalism and Poverty in America," *Monthly Review*, vol. 24, no. 2 (June 1972), pp. 51-63; Barry Bluestone, "Capitalism and Poverty in America." *Monthly Review*, vol. 24, no. 2(June 1972), pp. 65-71; David Gordon, "American Poverty: Functions, Mechanisms, and Contradictions," *Monthly Review*, vol. 24, no. 2 (June 1972), pp. 73-79; Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis.* (D.C. Heath and Company, 1971); Edna Bonacich. "A Theory of Ethnic Antagonism: The Split Labor Market." *American Sociological Review* 37: 1972, pp. 547-559.
6. Harry Braverman, *Labor Monopoly and Capital* (New York: Monthly Review Press, 1974)
7. Cliff Brown, "The Role of Employers in Split Labor Markets" *Social Forces.*, vol.79 (2001), pp.653-681, Also, see Eric Olin Wright's definition of exploitation in *Classes* (New York: Verso, 1985).

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The Magical-Market World of Disney

by Janet Wasko

Discussions of the New Economy generally point to media and communication as the dynamic industries that are at the eye of the free market hurricane. The creation of ideas and images, we are told, has overtaken the production of things. The culture of consumer choice that commercial media offer, it is said, provides the basis for free societies and human happiness. Time-Warner CEO Gerald Levin proclaimed on CNN in January 2000 that "the global media is fast becoming the predominant business of the twenty-first century, and we're in a new economic age." In this article I would like to take a look at the Disney company, one of the three largest media firms in the world, and a firm often invoked as the type of company poised to dominate in the twenty-first century. From its evolution as a small Hollywood animation studio, Disney has expanded into a giant media conglomerate (see page 58). From a political-economic perspective we need to ask: How has Disney expanded beyond the commodification of children's culture to the commodification of culture more generally? How does it exemplify in the digital age what Harry Braverman in *Labor and Monopoly Capital* called "the logic of the universal market"?

To begin to understand the Disney phenomenon, it is crucial to investigate Disney, the corporation. In other words, to understand Disney's brand of fantasy, one must understand how it is manufactured and marketed, by whom and why. Despite the image of Disney as a fun-loving, lighthearted and creative company, like any other corporation it is primarily geared to accumulation. Michael Eisner, Disney's CEO, explained in no uncertain terms to Disney stockholders:

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This article is based on two chapters from *Understanding Disney: The Manufacture of Fantasy*, (Cambridge: Polity Press, 2001).

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> I have always believed that the creative process must be contained in what we call "the financial box"—financial parameters that creative people can work in—but the box is tight, controlled and responsible. Finance has the key to the box.

To better understand how Disney operates, this article will look at various "financial boxes" that explain how it integrates and promotes its diverse activities and global strategies.

Financial Box 1—Disney Synergy and Children's Culture

The major media and entertainment companies have long been diversified with business divisions spread across film, broadcasting, and print. Yet, these companies increasingly are realizing the benefits of promoting their activities across a growing number of outlets, creating a cross-promotional dynamic or "synergy" between individual units and producing immediately recognizable brands. An article in *The Economist* (May 23, 1998) detailed this process as follows:

> The brand is a lump of content—such as News Corp's *The X-Files*, Time Warner's *Batman* or Viacom's *Rugrats*—which can be exploited through film, broadcast and cable television publishing, theme parks, music, the Internet and merchandising.
>
> Such a strategy is not so much vertical or horizontal integration, but a wheel, with the brand at the hub and each of the spokes a means of exploiting it. Exploitation produces both a stream of revenue and further strengthens the brand. Thus when Viacom licenses Rugrats toothpaste and Rugrats macaroni and cheese, it both makes money and promotes the direct-to-video movie launched last year and the full-blown animation feature due out later this year.

This certainly is not a new development for the Disney company. From its inception, Disney created strong brands or characters that were marketed in various forms (mostly through films and merchandise) throughout the world. The company's cross-promotional strategies accelerated dramatically in the 1950s when the company opened Disneyland, the theme park that used previously created stories, characters, and images as the basis for its attractions. In addition, the television program *Disneyland* was introduced on ABC, providing further opportunities to promote the theme park as well as Disney's other products. Over the past few decades, the possibilities for synergy have expanded even further with the addi-

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tion of cable, home video and other new media outlets. Indeed, the Disney company has developed the strategy so well that "Disney synergy" has become the phrase typically used to describe the ultimate in cross-promotional activities.

THE WALT DISNEY COMPANY
TOTAL REVENUES (2000): $25.4 BILLION

Studio Entertainment
Film: Walt Disney, Touchstone, Hollywood, Miramax, Merchant-Ivory
Recording: Buena Vista, Hollywood, Mammoth, Lyric Street
Walt Disney Theatrical Productions
Buena Vista International (international film distribution)
Buena Vista Home Entertainment (video/DVD)

Parks and Resorts
California: Disneyland; California Adventure
Florida: Walt Disney World; Epcot; Magic Kingdom; Disney -MGM Studios; Fort Wilderness (camping, etc.)
Japan: Tokyo Disneyland
France: Disneyland Paris
Disney Vacation Club
ESPN Zones
Disney Quest (indoor entertainment venues)
Walt Disney Imagineering
Disney Sports Enterprises
Anaheim Angels (baseball)
Mighty Ducks of Anaheim (hockey)

Internet & Direct Marketing
GO Network, disney.com, espn.com, abcnews.com, family.com, abc.com, The Disney Catalog

Consumer Products
Merchandise Licensing
The Disney Stores (728 stores)
Walt Disney Art Classics
Disney Interactive
Walt Disney Children's Books
Magazines: Discover, Disney Adventures, FamilyFun, FamilyPC, ESPN The Magazine

Media Networks
Television: ABC network (including 10 stations, 224 affiliates)
Television labels: ABC, Walt Disney, Buena Vista, Touchstone
Radio: ABC Radio network (including 21 stations, 3,400 affiliates), ESPN Radio, Radio Disney
Cable: Disney Channel, ESPN, ESPN2, ESPN Classic, A&E, Lifetime, The History Channel, E!, "style", Toon Disney, SoapNet
Publishing: Hyperion, ESPN Books, Talk/Miramax Books,

Sources: Hoover's Database, 2000; 2000 Walt Disney Company Annual Report; Form 10-K Annual Report to the Securities & Exchange Commission, 2000

While synergy is often a goal of other media corporations, the Disney company claims to be especially suited for such a strategy of seamless market expansion. As one executive explained:

> It's a unique attribute of the Disney company, the ability to create synergy between divisions, whether it's interactive games, Buena Vista television, or the Disney Channel. We all work together and we do it on a year-round basis and we do it aggressively. The success of those ongoing roles makes everything in the company work better. We actually have people in every division that are responsible for the synergy relationships of the company and every division has that. We take it very seriously. Disney CEO Michael Eisner takes it very seriously. (Zoltak 1996)

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Disney synergy is first and foremost about the commodification of children's culture, its transformation into a universal market, in which licensed characters become the center of an infinite array of interlocking marketing schemes. The "creative content," as Eisner explained, must be contained within the "financial box," or rather an array of financial boxes. A close look at the release of one film provides insight into how every division of the company becomes involved in the marketing effort. Disney's thirty-fifth animated film, *Hercules,* was released in U.S. theaters June 27, 1997. However, a wide array of promotional activities and the sale of merchandise started long before that date.[1]

In much of the press and industry coverage, Disney marketing and promotion activities are portrayed as simple, even "natural" processes. An article in *Children's Business* explains: "For the folks at Disney, the philosophy is simple: The movie is the primary product and serves as the inspiration for the merchandise that flows from it." As one Disney executive explained: "It's important to us that the entertainment comes first. First, the kids will see the movie and fall in love with the characters; then they'll want to bring home a piece of that movie."

But the film *doesn't* come first. For a Disney film, the promotion starts with the initial announcement of the film, usually years before its actual release. Work on the pre-production and production process is covered in entertainment and trade magazines, as well as in Disney-owned media. During the 1996 Christmas season, four-minute trailers for *Hercules* were shown before each theatrical screening of *101 Dalmatians.* Plus, *Hercules* trailers were included on the twenty-one million shipped copies of the *Toy Story* video and on the ten million cassettes of *The Hunchback of Notre Dame.*

In February 1997, Disney started their third MegaMall Tour to promote their summer films. The previous mall tours for *Pocahontas* and *Hunchback* had attracted over four million people. But the *Hercules* tour was far more extensive, spanning five months in twenty cities and featuring eleven different attractions. The tour included a live multimedia stage show (presented twice each hour), a "Baby Pegasus Playland" for toddlers, featuring carousels and other play areas, and a ten-minute video workshop called "Learn to Be an Animator," where guests were shown how *Hercules* characters were animated.

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Several carnival-type *Hercules*-themed game booths were offered, with McDonald's providing the prizes. In addition, there were opportunities for guests to take photos, try out the new *Hercules* games introduced by Disney Interactive, and log onto the *Hercules* Web site at hercules.disney.com. The tour also was sponsored by GM's Chevrolet, with one guest in each city winning an all-new Chevy Venture Minivan. Although the tour represented collaboration between Walt Disney Imagineering and Feature Animation, other Disney divisions (such as Disney Interactive) were also involved.

In its inaugural stop at an Atlanta-area mall, Mayor Bill Campbell welcomed the tour by reading a proclamation from the governor naming February 6 as "Hercules Day" in the state of Georgia. Over the next four days of the engagement, attendance at the mall soared by as much as 30 percent and swelled the parking lot to capacity.

Also in February, Feld Entertainment opened the eighteenth Disney on Ice production, *Hercules on Ice*—the first time an ice show had opened before the release of a film. Typically, the productions opened one year to fifteen months *after* a film's opening. By the end of 1997, the show had become one of the top grossing ice shows. Eventually, it would play in twenty-eight cities, for 310 performances over a five-year tour. Accompanying each show were concession stands selling *Hercules* dolls, caps, flags, t-shirts, plastic cups, and other gifts.

Ironically, the film itself attempts a tongue-in-cheek portrayal of the merchandising and tie-in efforts, featuring "Air Herc" sandals, "Herculade" thirst quencher, and even a "Hercules Store" crammed with figurines. But meanwhile back in the real world, the licensing process for *Hercules* merchandise had started much earlier, and was reported to include nearly a hundred manufacturers and 6,000 to 7,000 products, which began appearing in stores at least three to four weeks before the film's opening.

The Disney company obviously had high hopes for the merchandising potential of the film. "This is classic Disney entertainment with broad appeal for the whole family," said Sean Mitchell, director of Marketing in Filmed Entertainment Licensing. "The film's appeal is truly across-the-board. At its heart and soul it's a comedy—very smart, very witty, very funny. We think that little boys will want to become Hercules, and little girls will want to become Meg. So we

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try to reflect that in the products we do; the merchandise brings the characters to life."

The Greek theme sent Disney executives into ecstasy: "We've got that whole Greek motif to work with," explained Mitchell. "There are so many icons—Greek flowers and urns, columns and temples, swords and musical instruments. We take these classic icons and, essentially, put them through a 'fun filter' to translate to product in a very entertaining way. From a design standpoint, the scope of mythology provides us with almost limitless opportunities."

As mentioned previously, the Disney company manufactures its own products as well as licensing specific characters and images to other manufacturers. Disney requires a sizable up-front guarantee and a 16 percent royalty fee on wholesale orders, although most other movie tie-ins are around 12 percent.

It is important to point out that the marketing/merchandising effort is not a haphazard or casual affair. Not only are licensees carefully selected, but the Disney company insists on coordinating all aspects of the design and marketing of the products. As one of the licensees explained, "Disney's goal is to have the entire merchandising plan look similar. They want all the products in the store to have the same feel and style. So they'll lead us in their direction. We'll submit artwork, and they may say it should have a slightly different look. They want their property to look uniform; they treat it like a brand." Even the licensees themselves work together, sharing ideas for marketing and participating in joint promotions.

As noted previously, a multitude of products were produced by a wide range of licensees. While some of these companies arranged one-time-only contracts with the Disney company, others were part of long-term relationships. The Disney deal with Mattel included the production of ten action figures and seven fashion dolls, but also represented the beginning of a three-year alliance with the toy company serving as Disney's "master toy licensee." Not only the Mattel toys, but other products were given a big push at the industry's Toy Fair in New York in February.

Another indication of the range of *Hercules* products is evident from looking at just one company's product line. Pyramid, a manufacturer of handbags, backpacks, and assorted rainwear, introduced four groups of *Hercules* products, each featuring a different treat-

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ment or look. One group was called "comic book"—bright and vibrant colors, playing up the hero-comic-book feel of the movie. Another was the "heroic" group, and another "Meg's Garden," obviously appealing to girls with a "romantic" look. The final group was "Daisy Meg," described as "sixties-seventies retro." The different looks obviously indicate the deliberate attempts to appeal to specific segments of the audience.

In addition to the toys, clothes, etc., there were also a myriad of publications associated with the film. A trip to a local bookstore revealed not one or two, but over fifteen different *Hercules*-related publications. A survey of the *Hercules*-themed birthday party products available at a local K-mart store included balloons, ribbons, colored cord, wrapping paper, blow-outs, two types of paper hats, treat sacks, three types of stickers, three varieties of napkins, paper table cloth, two styles of paper plates, cups, three different gift bags, streamers, and many different types of cards and invitations. A Greek Decoder Sweepstakes promotion was featured on much of the *Hercules* merchandise, and was promoted across many of the Disney divisions.

As the *Hercules* merchandise started appearing in the Disney Stores, some sites received "visual design and theming in support of the film." Around the same time, *Hercules* products and promos were featured by tie-in partners, including McDonald's, Nestle, Choice Hotels International Inc., Quaker Oats, and General Motors Corp. While each of the tie-ins involved different types of products and activities, the McDonald's promotion, which ran from June 20 to July 24, was probably the most visible.

Other products that began to appear included the film's soundtrack (released by Columbia Records on May 20), as well as interactive merchandise, including Disney's Animated Storybook, *Hercules*; Disney's Print Studio, *Hercules*; Disney's *Hercules* Action Game.

Meanwhile, *Hercules* hit the Internet. Similar to other film companies, Disney has taken advantage of this emerging resource as a new way of promoting their products, especially upcoming and newly released films. When the *Hercules* site was launched, it featured details of the 20-city mall tour, summaries of the *Hercules* story, information about the characters and "stars" of the animated film (each character had a home page explaining

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their personality), plus other activities (a Wheel of Sparta game, testing "general *Hercules* knowledge") and information. "Guests" to the site could download the film's trailer, as well as find out information about purchasing tickets to the film. Yet another example of tongue-in-cheek synergy was represented in the ESPN-inspired page, "OSPN: Olympus Sports Panhellenic Network."[2]

Closer to the release date, segments of the film were highlighted in the media, especially those channels owned by Disney. However, the hype accelerated dramatically during the weekend of June 13-15 when Disney seemed to take over the island of Manhattan. "The Hercules World Premiere Weekend in New York" included a wide range of events scattered around the city, which were promoted widely and covered extensively by the media.

During the entire weekend, "The Hercules Forum of Fun at Chelsea Piers" (sponsored by Chevrolet) featured live performances, interactive games, and animation demonstrations. Exhibits included the "Baby Pegasus Playland," "Titan's Tattoo Parlor," and "Hercules' Arcade," featuring a sneak preview of the *Hercules* video game. As part of the festivities, sweepstakes tickets to win a customized Chevy Venture Minivan themed to *Hercules* had been distributed through New York–area newspapers on April 6. The company reported that "The response was overwhelming. All sweepstakes tickets have been awarded and mailed to excited Forum of Fun goers."

On Saturday, jugglers, dancers and other entertainers were featured outside the New Amsterdam Theatre (owned by Disney), where the "Heroes from Around the World" ceremony was held. The event featured Disney's head honcho, Michael Eisner, plus New York Mayor Rudolph W. Giuliani, Robin Roberts of ABC Sports and ESPN, and a group of "world-class athletes known for their Herculean efforts." The world premiere of the film was followed by "The Hercules Electrical Parade," a nearly two-mile extravaganza that started on 42nd Street and continued up Fifth Avenue to 66th Street. The parade featured the new Hercules-edition of Disneyland's "Main Street Electrical Parade," including 103 marchers and thirty floats that had been outfitted with an additional 500,000 new bulbs added for the occasion. The Disney folks had arranged for the city to turn off street lights and requested busi-

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nesses along the route to darken their shop windows "to allow parade goers to get a clear view of the leading characters." In addition, sixty-eight speaker towers were installed along the route to provide music for the event. While over a million people were expected for the parade, only "invited guests" attended an after-parade party at the Forum of Fun at Chelsea Piers.

The festivities continued on Sunday with a "Hercules Breakfast with the Champions"—a news conference hosted by Robin Roberts and held at New York's Essex House Hotel, honoring five U.S. Olympic Gold Medal Decathlon winners (Bob Mathias, Milt Campbell, Bill Toomey, Bruce Jenner, and Dan O'Brien), who received hero proclamation certificates from the City of New York. Dr. Frank Zarnowski, claimed to be the world's foremost authority on the Decathlon, also participated in the event. The finale was the kick-off for "The Hercules Summer Spectacular at the New Amsterdam Theatre"—a twelve-day exclusive New York engagement of the film before its release, including a live stage show featuring a full orchestra and a cast of Disney characters.

Meanwhile, on the other side of the country, the El Capitan Theater in Hollywood was the site of another Forum of Fun, another Chevy Venture give-away, plus live stage shows prior to screenings of the film.

The Manhattan premiere party and parade was covered live on cable channel E!, as well as receiving extensive coverage by other media outlets. On June 20, the film began an exclusive seven-day run at the historic Chicago Theatre. Before each performance, a live stage production of "Disney's Magical Moments" celebrated Disney animation with singing and dancing performers, a full orchestra, and many of the studio's costume characters.

Disney also repeated its sneak preview weekend strategy (used for *Hunchback* and *101 Dalmatians*) to promote the June 27th opening through the Disney Stores, Disney On-Line and the Disney Catalog. The on-line site allowed "guests" to purchase special preview tickets for the *Hercules* Sneak Preview Weekend (June 21 and 22), plus to locate participating theaters closest to them. By ordering tickets, consumers would receive special character collector pins and special offer coupons valued at over $50. Tickets were also available at the Disney Stores, through the Disney Catalog, or through a special

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hotline. For one penny more, shoppers could also purchase the (already) hit single from the film, "Go the Distance," performed by Grammy Award winner Michael Bolton, however, the cassette single was available only at the Disney Store.

Not too surprisingly, Disney aired a special prime time television program introducing the *Hercules* characters and cast, on the ABC network, of course. Media coverage of the film's opening also included two specials on the Disney Channel. "Movie Surfers Go Inside Disney's Hercules" (Sunday at 5:30 p.m. and 8:30 p.m.) explored the movie set and provided facts about the film. Disney's "Hercules Strikes Manhattan" (Sunday at 7:30 p.m. and 10:30 p.m.) featured the "Hercules Electrical Parade" as it moved through the streets of New York. The promotion on Disney's cable channel prompted one Gannett reporter to monitor the "around-the-clock promotion, clocking Disney's out-of-control commercialism." He found the following:

- Disney crammed a three-minute *Hercules*-related promotion in a half-hour "Chip 'n' Dale Rescue Rangers" cartoon at 8 a.m. Friday.
- Three thirty-second spots, liberally laced with *Hercules* scenes, hyped "Hero to Zero Weekend."
- Two thirty-second spots, and a sixty-second one, urged kids to watch a half-hour infomercial, "Movie Surfers Go Inside Disney's 'Hercules.'"

On yet another Disney-owned cable channel, A&E featured Hercules on their *Biography* series, introducing the program with footage from the Disney film. The *Village Voice*'s comment: "and he's not even a real person!" (July 15, 1997)

Meanwhile, the only movie theater in Celebration, Florida, was showing Disney's *Hercules* and the *Hercules* Victory Parade opened at Walt Disney World.

Perhaps now one can understand why one financial analyst cited in the *Los Angeles Times* (July 21, 1998) concluded that "Walt Disney is one of the most efficiently integrated entertainment companies on the planet. All the other entertainment conglomerates talk about 'synergy,' but Disney is the only company that actually does it. They know how to squeeze 'synergy' until it screams for mercy."

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Financial Box 2: Media Acquisitions

The *Hercules* example demonstrates how all of the corporate divisions become involved in promoting a Disney brand, but does not fully reveal all the additional means of synergistic accumulation that were created with the ABC merger. The addition of ABC and ESPN to the Disney empire dramatically increased the possibilities for cross-promotional referencing of Disney properties.

Again, there are plenty of examples, and only a few will be mentioned here:

- Shortly after the Disney-ABC mega-merger, "Roseanne" featured several episodes about visits to Disney World and several "Good Morning America" broadcasts directly from the theme park.
- The introduction to ABC's "Monday Night Football" during the 1997 season featured an opening sequence in which jets flew across well-known American landmarks, including the EPCOT dome and Cinderella's castle at Disney World.
- In 1997, ABC's coverage of the Tour de France included a feature on Disneyland Paris.
- One of the events taking place at Disney World in November 1998 was ABC's "Super Soaps Weekend."

The Disney-ABC merger also allowed for the cross-over of talent especially between ESPN and ABC. For instance, Chris Berman, the popular ESPN sportscaster, now appears regularly on ABC's sports programs. Other examples of cross-over talent include films, such as The Waterboy, a Touchstone production, which included several sequences with ABC and ESPN sportscasters. Significantly, Disney also has been accused of refusing to sell advertising time on the ABC network for films of rival studios, another indication of the hardball tactics used to protect the Disney brand.

Although promotion of products across divisions, cross-over talent and restrictive advertising policies are probably predictable business strategies—leading people to look the other way—coverage of news and public affairs is (and ought to be) another matter. The issue of corporate censorship or influence of news coverage has been addressed over the years by numerous communication scholars, notably Ben Bagdikian, Noam Chomsky, and Edward Herman. When Disney took over the reins at ABC, and thus, ABC News, there

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was a good deal of attention to the Mouse House's involvement in the news business. While the company claimed that it would institute a hands-off approach to news production, there still have been numerous instances of corporate meddling.

The most notable example involved ABC's news magazine program, *20/20*. ABC News was accused of canceling a story about theme park security, including claims that Disney World does not administer the kind of security checks of potential employees that would identify sex offenders. Apparently, network executives had agreed to use research from the critical book *Disney: The Mouse Betrayed,* by Peter and Rochelle Schweizer, but then rejected drafts of a script for the story. Of course, company spokesmen claimed that the chairman of ABC News made the decision "on his own without direction from network or Disney executives." This certainly may be true. However, as Leo Bogart points out in the process of influencing news coverage works in subtle and indirect ways. "Few media overlords are so crude as to give direct orders to kill or slant stories. They do not have to do that in order to let it be known what their views are and where their interests lie. Almost imperceptible Pavlovian cues reinforce desired behavior and inhibit what is unwelcome."[3] While claims of direct censorship can often be denied and possibly substantiated in some situations, it is still difficult to separate editorial policies from ownership connections, no matter who makes the decisions.

Financial Box 3: Global Disney

The Disney company and other U.S.-based multinationals "move with agility" in foreign markets, not only because of their own activities, but with assistance from the U.S. government. For instance Disney joins with other U.S.-based media corporations in insisting on copyright protection for their products in foreign markets, and relies on the U.S. government to enforce these rights using whatever means are necessary.

As part of its global strategy, Disney waged a campaign aimed at the state to support the copyright extension bill. U.S. entertainment companies continuously make financial contributions to election campaigns, so that politicians and government officials will feel favorably disposed to supporting their inter-

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ests in foreign markets. For instance, the Washington-based Center for Responsive Politics, in a study based on reports to the U.S. Federal Election Commission, included major contributions to the Democrats from entertainment and communications companies in 1995. Among them: $125,000 from the Walt Disney Co. and $373,000 from Miramax Films Corp. In light of these contributions, it is not surprising to find that President Clinton's trade negotiators have challenged policies that limit the sale of American films and television programs in international markets.

The Disney company stands out among multinational corporations in the degree to which it is able to elicit financial assistance from foreign governments on its own, especially in the construction of their theme parks and resorts, in ways that other companies probably only dream about. A relatively recent coup d'état was the support received from the French government in the construction of Disneyland Paris. To attract the Disney company and the estimated 30,000 jobs that would be provided by the park, the French government offered land at below market value, as well as agreeing to arrange low-interest loans, lowering taxes on admissions (from 18.5 percent to 7 percent), and investing 2.7 billion francs in infrastructure improvements, such as new highways and railroads. The funds for constructing the $2 billion park came from the government, plus a group of banks and investors, with Disney reportedly paying merely $200 million for its 49 percent share.

Meanwhile, in late 1999, the company announced that it would build a new theme park in Hong Kong, with the government there contributing as much as $1 billion for a majority stake in the project.

Although the Disney company doesn't always get its way with governments around the world, or even in the U.S., their ability to do so in many situations provides them with important advantages in foreign markets. Thus the Disney brand continues to cross international borders and Disney products continue to be interpreted as "universal."

Not only is Disney generally able to move with agility in global settings, but the company also succeeds by "exploiting inter-

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national opportunities." Similar to other multinational companies, Disney takes advantage of chances to produce its products outside the U.S., where they find cheaper labor and lower operational costs.

Disney's film and television production is arranged where labor is cheap or tax advantages are lucrative, which often means countries outside the U.S. Animation production is often cheaper outside the U.S., so consequently, some of Disney's work is done in Asia, Australia, and Canada.

Disney's extensive merchandising activities also benefit from the globalization of labor that has accelerated over the last few decades. Like many other American companies, Disney often designs its own products, then licenses the actual manufacture to independent subcontractors, mostly in Third World countries. The company obviously benefits from controlling the design of products, which then can be produced at lower cost and sold for higher profit margins. As a capitalist concern, Disney benefits from a global division of labor that perpetuates the de-skilling and devaluation of labor in this process. The company licenses the rights to its intellectual property to contractors at relatively high rates, thus subcontractors seek to manufacture products for the lowest possible cost. For products that depend on manual labor (clothing and toys, for instance), this often means that products are manufactured where labor costs are low, meaning American sweatshops or in factories located in developing countries.

One source claims that Disney licensed products are manufactured at an estimated 3,000 factories worldwide, often in Third World countries where workers are paid poverty-level wages and often work in inhumane conditions. For instance, in December 1998, the minimum wage for workers in Haiti was $.30 an hour, which means $2.40 a day, or $624 a year. If a worker is paid on a piece rate system, it is possible to receive around $.42 an hour, which is still not enough to pay for a family's food for one day. Human rights groups have organized efforts to call attention to these conditions, calling for a living wage of $.60 for Haitian workers.

Licensed products are also produced in China, Macau, and Vietnam, where workers are sometimes paid late (or less than promised) to work in factories where they are exposed to toxic chemicals. Other products

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are produced in Hong Kong, Taiwan, Dominican Republic, Mexico, St. Lucia, Malaysia, Brazil, Thailand, Colombia, El Salvador, the Philippines, Indonesia, Sri Lanka, Honduras, India, and Bangladesh.

In a 1999 study called "Whistle While You Work," James Tracy argued that products that are manufactured in these countries are sold at prices that are set as if they were manufactured in industrialized countries, making it difficult for workers to purchase the products they make. The average GNP per capita for the previously listed countries in 1997 was $3,296. At the same time, the per capita GNP for the U.S. was $25,860, and $34,360 for Japan. Tracy says:

> While the labor of developing countries produces these articles, the laborers are excluded from consuming their products. Further, surplus value created by underpayment is embodied in the products. When Disney prices the product as if it were manufactured in an industrialized country, Disney profits from that surplus value.

Looking at the Disney merchandise available in one American city, Tracy compared different types of Disney products and where they were produced. He found that a majority (80 percent) of the toys, jewelry, and ceramics (which require manual labor) were manufactured in dependent countries, while media products (which benefit from automated production) were overwhelmingly (92 percent) produced in industrialized nations.

Conclusion

Disney is an icon of American culture. It has insinuated itself into the everyday life of hundreds of millions of people, primarily through its role in the commodification of children's culture, but also through the commodification of media and culture, more generally. Although it still has a beneficent public image that goes back to the original Disney animation studio, there is no doubt about what the company is all about. As Michael Eisner put it bluntly in a 1981 staff memo: "We have no obligation to make art. We have no obligation to make a statement. To make money is our only objective"(cited in Kim Masters, *The Keys to the Kingdom*). Or as one can read on the Disney investor's Web page: "Disney's overriding objective is to create shareholder values by continuing to be the world's premier entertainment company from a creative, strategic and financial standpoint."[4]

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What Disney is about is creating entertainment commodities that penetrate into homes everywhere through the manipulation of innocence and dreams—the manufacture of fantasy for profit.

In terms of accumulation, there are no limits to the expansionary goals of Disney, which sees itself as a global corporation with a universal, increasingly high-tech content in a new economic age. The magical-market world that Disney has created is one in which a global megacorporation is able to exploit the new digital technology while continuing to plunder history, mythology, and folktales for its visual icons—and transforming these into new, fun-filtered licensed products aimed mostly at children, who are taught to buy into both the visual images and the final licensed products. At the same time, Disney, with its unlimited commercial thrust, has absorbed one of the big U.S. television networks, ABC, giving it considerable control over not simply the manufacture of fantasy, but also the presentation of television news, supposedly a window into the world of reality. What Disney thus represents is a giant financial box, expanding seemingly without limits into a wide range of cultural products. In the Disney utopia we will all live locked up in this financial box in a sea of commodified culture—a fate reminiscent of Weber's iron cage.

NOTES

1. The discussion of the promotion of *Hercules* is drawn from coverage in a wide array of newspapers and trade magazines, especially *Variety, The Hollywood Reporter, Business Wire, PR Newswire, Amusement Business,* and the *Los Angeles Times.* Also, material has been quoted from Biederman, Danny, "Disney's *Hercules* Promises Big Summer Muscle," *Children's Business,* February 1997.
2. <http://www.disney.com/Hercules>
3. Bogart, Leo, "What Does it All Mean?", Woodhull, Nancy J. and Snyder, Robert W., *Media Mergers* (New Brunswick,NJ: Transaction Publishers) 1998.
4. <http://disney.go.com/investors/index.html>

"People feel overworked and underpaid, especially in contrast to their CEOs, who now make 500 times the average employee's wages."

—*Business Week,* September 11, 2000, p. 182

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The "New Economy" and the Speculative Bubble: an Interview with Doug Henwood

Doug Henwood, author of *Wall Street: How It Works and for Whom* (Verso, 1997) and publisher and primary author of the newsletter *Left Business Observer,* is a frequent contributor to *Monthly Review.* Doug was interviewed earlier this year for the *San Francisco Bay Guardian* by another good friend of ours, Christian Parenti—author of *Lockdown America* (Verso, 1999), reviewed in last month's *MR.* At the end of February we asked a few additional questions of Doug. The composite interview follows.

Q: What do you think of the much-used term "globalization"?
Doug Henwood: I think it's very imprecise and used to mean many things. On the left, "globalization" is used instead of "capitalism," or "imperialism," or some combination of the two. In some ways this is an uncritical embrace of vocabulary that comes out of the ruling class. Look at the World Bank or mainstream pundits: they all talk about the "inevitability of globalization." Many on the left just take that term—whatever exactly it means—and put negative signs in front of it. They don't really sort through what the term itself means or what the critical approach of an oppositional movement should be.

Also, I think "globalization" presumes a past, innocent, "localized" age when things were nicer. And it identifies the process of internationalization itself as the enemy rather than the capitalistic, imperialistic, exploitative aspects of that internationalization.

Internationalism is something progressives should embrace. I thought we liked cosmopolitanism, and intercourse of all kinds among the people of the world.

Q: So why the use of this term, "globalization"?
DH: People are very timid about using words like "capitalism" and "imperialism." We're told they're very out of fashion now. But I don't think a mushy and misleading substitute terminology is acceptable.

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People should call things by their names and start thinking of things by their names. Luckily, I see more of a willingness on the part of troublemakers to do just that.

Once you start to understand capitalism, you see that it's always been an international and internationalizing system. Maybe we can say the pace of that has picked up, but I don't think there is anything particularly newly international about the political economy today.

For example, levels of capital flows and international trade in the late 19th century were by some measures higher than they are today. A hundred years ago you had the age of outright imperialism, which was certainly a sort of globalization. This has always been a global system, a world system. To posit this utopia when everything was really groovy and "local" is misleading, historically and politically.

Q: Some would concede your point but argue that the sheer quantity of international transactions and communication has led to a qualitative shift.

DH: Certainly things have speeded up. But the shift from a world in which information and capital could only flow at the speed of weeks—transatlantic ocean voyages, for example—to the era of the telegraph was a much bigger shift than anything we've seen today. That change compressed the whole world timescale from weeks into seconds. Going from seconds to nanoseconds is faster, but is it really more radical or important than changes in the past?

We're used to thinking in a global way because of the telegraph. We inherited a whole way of global thinking that was created *ex nihilo* then. The same with the telephone, the photograph, jet travel—these all had to do with creating a proverbial "global village." We're not now entering some new kind of hyperspace severed from what went before it.

And although the international movement of capital and goods may take different technical forms today, the basic social relations of the world economy are still very much the same. There are still owners who employ, control, and profit from workers. There are still imperial centers dictating policy to and demanding service from the colonized periphery. There's still the debtor-creditor relation, which is one of dominance and submission.

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Q: Where does wealth come from in capitalism?
DH: I'm very old-fashioned. I think that wealth—whatever kinds of transformations it goes through—fundamentally originates in the exploitation of labor and nature in the production process. So workers produce wealth that's then expropriated—taken—by the owners of capital. It may not be expropriated directly by capitalists the way it was in the 19th century—often you can't point to a single plant owner and say, "I work for him, and my work makes him rich"—but it's still the same set of social relations.

It's a lot more institutionally complicated now; wealth goes through all these financial markets, all these transformations from commodities to money to stocks back to money and commodities and so on. Those who produce wealth, say, in a sweatshop making clothes for the Gap, are geographically distant from those who control and accumulate wealth via stocks, bonds, their trust funds, whatever. But still, fundamentally, workers produce wealth; capitalists and financiers expropriate it.

Q: You're finishing another book, called *A New Economy*? Could you tell us about that?
DH: The whole New Economy discourse of the last three or four years—which may be fading now that the dot-com stocks have collapsed and the economy is looking a little recessionish—holds that computer and communications technology have so turned the world upside down that all the old rules don't apply. Supposedly, we've entered a period of "prosperity for all" because governments are now powerless; finance has been "democratized"; a wonderful "spontaneity" has moved to center stage; there's been an end to the business cycle. Supposedly, we've entered a period of tremendous productivity growth, and there's never been anything like it before.

In fact, there's been a lot of things like it. And the current rhetoric is very similar to past rhetoric that's come late in long bull markets. There's something about an exuberant stock market that leads to this euphoria about "new eras."

The past has seen at least three such periods over the last century. Around 1900, 1901, there was a bubble craze jacked up with all the turn-of-the-century fever: a sort of calendar superstition mixed with technophilic exuberance. Likewise in the late 1920s just before the

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bust and then in the late 1960s, there was more "new era" hype. At least the current mania is beginning to wane as the markets sink and the dot-com roadkill mounts.

The popular writing of all these periods is always remarkably similar. It's this "technologically driven transformation of life that renders everything else obsolete." There are always claims of a new era of understanding among the peoples of the world because of new technologies. Peace, love, understanding, and commerce.

In the 1960s the chair of the Federal Reserve, William McChesney Martin, viewed the new-era rhetoric as something to worry about, as a dangerous signal that people were too exuberant. It was too much like 1929. That's a very antispeculative, old-fashioned central banker kind of temperament. These days, Alan Greenspan is the leading proponent of the New Economy thesis; he promotes it at every opportunity he can get. So the exuberance has filtered to much higher levels of the ruling class than in the past.

Q: Given this culture's hallucinatory fixation on finance and speculation, it is worth asking a very basic question: What fueled the latest stock market boom?

DH: I would say this bull market has had several stages. It started in August 1982, with fairly little interruption since; there was the '87 crash, but that didn't last all that long, and by formal standards the recession that followed wasn't too serious. So the bull market began just as the great Volcker squeeze was ending. Paul Volcker took over at the Federal Reserve in 1979, and he almost immediately drove interest rates from around 7 percent to over 18 to 20 percent, which created a very deep recession. The official reason for this was to end inflation and rising wages.

Recession cured other problems as well. The commodity-producing countries were forming cartels and driving prices higher. General rebellion was going on in the southern part of the world. The United States had lost the Vietnam War. There was a lot of talk of loss of imperial power. At home in the United States there were a lot of wildcat strikes. It was a time of the "blue collar blues," when it looked like the working class was saying "fuck you" to work, "fuck you" to the boss. That sort of attitude was reproduced around the world. There were strikes in Italy. A lot of worker protest and militant

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action going on in Europe.

There was a famous report of inflation put out by the [Organization for Economic Cooperation and Development] some time in the late '60s or early '70s that described economic inflation as inseparable from the fact that there were so many people in the streets.

Q: In other words, there was inflation not just of currency but of expectations.

DH: Exactly! And that's what Volcker dealt with at around the same time Thatcher took office and did the same in England. He tripled U.S. interest rates and created a very deep recession. Then Reagan came into office, breaking unions and promising to rebuild the imperial military machine; he launched a mass assault on the welfare state. Discipline was reasserted: unions were broken, and there was a general reassertion of capitalist power over labor on a national and a global scale. This assertion of ruling-class power, I would say, was very successful.

The recession in the early '80s scared the hell out of the working class in the United States and around the world. The tougher attitude on the part of the Reagan administration—the invasion of Grenada being one example—really took the starch out of the Third World's progressive talk about a "new economic order." It was clear the United States was going into a big military buildup and would be much more assertive militarily and politically.

All these things took hold in the early '80s. That had the effect of ending the long slide in the U.S. profit rate which started in the early '70s. The profit rate started rising. There was a massive upward redistribution of income because of that higher profit rate, because of the tax and regulatory changes here and elsewhere. From the point of view of the stockholding class, these were getting to be wonderful times.

So the bull market at first was a very rational reaction to all this: profits were rising, so the market would rise. It was becoming a very good time to be an owner of capital. That set of circumstances prevailed throughout the 1980s.

Q: To use the mainstream language, stock values rose because stock earnings rose, thus the stock market of the 1980s was rational?

DH: Yeah. Then you had that period, around '89 to '93, the George

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Herbert Walker Bush years, when the economy was pretty flat and the financial markets were sort of troubled. You had the Gulf War in there. But then after that was over, the whole thing resumed again. And then when Clinton came to power, aside from him raising taxes on the top percent of the population, which is one of the few good things he did, it was clear then that there was no political challenge at all to the rule of capital. Whatever troublemaking or social democratic tendencies that remained in the Democratic Party had been pretty much defeated and purged, thanks in no small part to Clinton, one of the founders of the Democratic Leadership Council.

There was the end of any threat of a national health insurance program after Clinton's disaster. And financial orthodoxy completely took over the Democratic Party, so there was just no institutionalized way of resisting the agenda of the bull market and the free traders. Wall Street and the stockholding classes were very happy about that, so they continued to buy stocks.

But sometime around 1995 or so, things stopped being quite so rational and started getting irrationally exuberant. The public began investing in a big way. The upturn in profits slowed down—profitability numbers actually peaked in '96, and they've been going down a little bit since then.

So the last four or five years have been mainly just the bull market feeding off itself in classic bubble fashion. The market goes up because the market goes up, and people have just been getting more and more exuberant and more and more bubblish.

Q: What about the role of so-called flight capital coming from abroad in fueling the U.S. stock market?

DH: It's certainly had an impact. The Asian economic crisis had a significant economic role in that a lot of the capital that had been heading toward Asia pulled out and headed toward the United States. The Mexican crisis of '94 had a similar effect: a lot of money exited Latin America and came to the U.S. The stagnation in Japan and western Europe has also contributed to the flow of money here and thus overvaluation in the markets.

This tremendous inflow of foreign capital—two or three hundred billion dollars a year for the last several years—has helped propel our expanding economy. That's kept markets rising; it has kept con-

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sumers being able to spend beyond their means.

And at a political, rather than a financial, level I think the effects of the collapse of the Eastern bloc have certainly contributed to the confidence of the capitalist class. There's no significant challenge to their rule now. Whatever the faults of the Soviet Union, at least it was an embodiment of the idea that you could do things differently. The loss of that alternative model is very cheering to capitalists around the world, who use that collapse to discredit any kind of state regulation of the economy or any remotely redistributive policies. So it's been a great ideological boost. And certainly Russian flight capital has injected a lot of cash: a lot of cash came out of Asia, Latin America, eastern Europe, and the former Soviet Union and came to the United States' stock markets. All these calamities elsewhere have produced wonderful results for the American ruling class.

Q: Can the large and enduring deficit in the current account balance of payments last forever? Would a truly bear market reverse the flow of capital to the United States or at least significantly reduce the inflow? What are the potential problems if this develops?

DH: That's one of the big questions, and it has been for a long time. This first became a problem in the 1980s, and it was then the subject of much public worry. The deficit narrowed in the early 1990s, and then widened again to massive levels—and since the deficit has to be financed, the U.S. net foreign debt increased every year. You don't hear much public worry about it anymore. One reason for that, I suspect, is that it was convenient in the 1980s and early 1990s to talk about the "twin deficits"—the federal budget deficit and the trade or current account deficits. But the current account deficit persisted, widened even, despite the federal government's going from red ink to black. Since the problem could no longer be blamed on a profligate public sector, but had to be blamed instead on the revered private sector, it became inconvenient and you no longer heard about it.

Of course it can't last forever, but how long it will last is hard to tell. There's no magic point at which a deficit or a debt level becomes predictably dangerous. When things get hairy is when creditors get nervous, stop rolling over old loans and extending new ones. If it happened suddenly, it would provoke a deep recession in the U.S., with unpredictable and possibly severe consequences for the rest of

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the world, especially Latin America, which has grown considerably more dependent on exporting to U.S. markets over the last 20 years.

Q: Eyes are fixed on the dangers to the economy when stock markets take a major dive. Perhaps even more fragility lies in the incredible speculation in derivatives, foreign currency, etc. Thus far, the U.S. government plugged the holes promptly and energetically in the credit crises of the past 30 years. But as the rubber band of world financial speculation stretches, what is the likelihood of the rubber band becoming too thin for rescue?

DH: I think one of the true innovations that capitalism has created since the end of World War II is the successful management of financial crises. In the First World, governments have repeatedly bailed out failing banks. Many Americans are, of course, familiar with the savings and loan crisis of the late 1980s, but there were many similar crises, many much larger in relative terms, in Western Europe at roughly the same time, and in Japan today. The Third World debt crisis of the 1980s, and subsequent financial panics, have been managed by shifting most of the costs of adjustment onto the debtor countries themselves, shielding First World creditors from significant loss, and First World economies from significant recession or worse. When will this magic run out? I just don't know, though it'd seem reckless to bet against it, given this track record. Even Japan, which has been unable to restart its economy after its bubble burst in 1989, has endured a long stagnation but no collapse. It's quite possible that the U.S. is in the early phases of something like that, though we don't realize it yet.

Q: Consumer expenditures have been exceeding income by far. For consumption to just stay at the same level, let alone increase, debt has to increase. Without a severe tightening of belts, debt has to grow just to service past debt. A similar situation holds for corporations as well. Banks are becoming wary about the likelihood of old debts being repaid.

What would result from a ballooning of nonperforming debt?

DH: This is a very serious problem. There's some evidence that creditors started getting a lot more cautious in late 2000 and early 2001. If they stay that way, and refuse to extend loans to riskier borrowers, then all the Fed easing in the world won't jump start the economy.

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As with the international situation, debt becomes a serious problem when the new money spigot gets turned off, and indebted households and businesses have to start servicing their debts out of current income rather than relying on fresh infusions of credit. The seizing-up of the credit machinery helped create the depression of the 1930s and the Japanese stagnation of the 1990s.

In a lot of ways, there are no modern precedents for the kind of economic situation we're in right now in the United States. The (never very adequate) safety net has been shredded, which, aside from its savage human consequences means that the old "automatic stabilizers" aren't as automatically stabilizing anymore. It used to be that welfare and unemployment insurance put a floor under personal income, so that in addition to keeping people from starving when they were thrown out of work, these mechanisms kept some buying power flowing to keep the broad economy afloat. Now, there's no more welfare entitlement, and a smaller share of the unemployed are eligible for jobless benefits than in earlier cycles. Also, no one believes in using government spending to counteract a downturn; Bush is proposing a big tax cut, but it's skewed heavily toward the rich, and wouldn't take effect for quite a while. This is one of many ways the early 21st century resembles the late 19th.

Q: Any last comments?
DH: I guess one of the more depressing aspects of political life in the last 20 years has been this absolute sense of resignation on the part of so much of the left. But it seems to me in the last couple of years that defeatism is being reversed. There seems to be a growing confidence. The development of this anti–World Trade Organization, anti-World Bank movement—regardless of my reservations about the standard analysis among many of the movement's putative "leaders"—is just wonderful to see. And I find that in talking to people who are involved in protest, they're really open to all kinds of truly radical ideas. So I think maybe this very long period of reaction that we've been living through for the last several decades may be finally coming to an end. While I'm sort of a temperamental pessimist, I've certainly not felt so optimistic about politics in a long, long time.

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BOOKS

Neoliberalism from Reagan to Clinton

by Gregory Albo

Michael Meeropol, *Surrender: How the Clinton Administration Completed the Reagan Revolution* (Ann Arbor: University of Michigan Press, 1998), 377 pages, cloth $34.50, paper $19.95.

Recent presidential elections in the United States have obfuscated, more than clarified, the social divisions of American society. While the Democrats project a well-worn image of protecting working Americans the Republicans declare the need to defend traditional American values. In reality, the consensus between the two parties on the superiority of American government and the beneficence of capitalism rules any challenge to the status quo politically out of bounds (even the candidacy of longtime policy activist Ralph Nader was seen as beyond the pale). The contest between Albert Gore and George W. Bush—a contest between patrician familial dynasties that could only occur in the United States—was no exception.

The Republican and Democratic conventions were long commercials for American capitalism and imperialism paid for by American corporations. American prosperity from the New Economy was continuously celebrated throughout the campaign. The dark side to the recovery that threatens its long-term viability has been less noted: record trade deficits creating the largest debtor nation in history, crushing corporate and individual debt levels, an enormous speculative financial bubble (seen vividly in the astonishing drop of the NASDAQ), and shocking income inequality that has continued to worsen. The problems of the poor, we are told, can be remedied by the "compassionate conservatism" of the

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Republicans, or the"new liberalism" of the Democrats. We are reassured that a "soft landing" engineered by the Federal Reserve will resolve pressing economic imbalances. The policy agenda is totally dominated by the consensus of the political and economic elites that there is no alternative to neoliberal policies supporting globalization under U.S. military domination. The neoliberal hegemony over public policy warrants careful scrutiny, for it is central to American capitalism, and to the dilemmas confronting the left inside the United States and beyond.

Another Look at Clintonism

Michael Meeropol's study of U.S. economic policy from Reagan to Clinton, *Surrender: How the Clinton Administration Completed the Reagan Revolution,* makes a timely contribution to such an assessment. Meeropol, a professor of economics at Western New England College and researcher for the Center for Popular Economics, argues that a major counterrevolution has transpired in American economic policy since the 1980s as the reformist Keynesian New Deal was overturned in favor of the revanchist neoliberal "social contract with America."

The book's central indictment is that President Clinton, in submitting his welfare, budget, and tax bills from 1995-1997, "signaled surrender: the Reagan revolution was going to achieve its major goals." The Reagan neoliberal program of small government, tax cuts, deregulation, free trade, and monetarist financial policies was more than just consolidated. In signing the Welfare Reform Bill of 1996 and the subsequent 1997 budget compromise, Clinton broke the back of the New Deal. The government commitment, however modest and poorly implemented, to protect the poor against the worst ravages of the market was thus ended. A central redistributional bargain crumbled as well: the top 20 percent of income earners in the United States would gain after-tax relief, while the bottom 20 percent of Americans would further suffer the marginalization of deepening poverty. The bulk of the text is devoted to a compelling examination of the neoliberal "revolution in economic policy" against postwar Keynesian demand management and welfare policies. Meeropol emphasizes the policy continuity between Reagan and Clinton over the chimerical differences of presidential campaigns.

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Meeropol's story of the right-wing ascendancy begins in 1979 when Federal Reserve Chairman Paul Volcker began one part of the economic counterrevolution against the New Deal. Volcker imposed the stringent monetarist anti-inflation policies that persisted into the 1990s. Formally, the Federal Reserve simply moved from the so-called targeting of interest rates according to aggregate demand conditions, to concentrate on controlling the aggregate movements of the money supply and letting the markets determine the rates. As a consequence of the tightening of money supply growth the prime rate rose to 12.5 percent by 1981, with the Fed fund rate eventually peaking at 19.1 percent. Rather than oppose such monetary policies, as administrations had done so often in the past, Reagan supported the Fed's stance. According to Meeropol, monetary policy was now safely in the hands of neoliberal ideologues and financial interests.

Reagan's tax and budgetary policies put in place the other part. In contrast to the sentiments of the New Deal, Reagan propounded that "the most important cause of our economic problems has been the government itself." The cure prescribed combined tax cuts to increase market incentives and cuts in overall government spending (with the crucial exemption of the military). The Budget and Reconciliation Act of 1981 began a long series of program cuts, and expanded means testing of entitlements, while introducing across-the-board tax cuts that favored the redistribution of income to the rich. The key measure, whose legacy continues to this day in a process of competitive taxation pressures between jurisdictions, was the Recovery Tax Act of 1981. It cut personal income tax brackets, particularly in the highest brackets, and accelerated capital depreciation, substantively "shifting the burden away from capital income." Meeropol details other measures of the neoliberal counter-revolution of Reagan's first term: tax bracket indexation, deregulation of monopolistic industries, reversal of equal employment initiatives, reduction of welfare benefits, and cuts to food stamps and other welfare supports.

In Reagan's second term structural deficit problems, from higher unemployment and increased military spending, reversed some of the tax-cutting supply-side zeal. The Reagan administration pursued so-called revenue enhancements. The 1986 Tax Reform Act,

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for example, actively increased taxation on capital gains (which Clinton would later reverse). An attempt was also made in 1986 to legislate a balanced budget by fiat through the Gramm-Rudman-Hollings Balanced Budget and Emergency and Deficit Control Act, but the strongest version of this legislation ran into political and constitutional obstacles. Reagan also made only minor progress in extending means testing to Social Security. The net effect of the Reagan Revolution, in Meeropol's view, was "that the climate in Washington relating to the role of the federal government...had begun to change."

Meeropol's empirical assessment of the claims of the New Right that Reagan's policies had reversed the American economic decline and stagnation of the 1970s is compelling. The monetarist policies implemented by former Federal Reserve Chairman Paul Volcker and his successor Alan Greenspan, for instance, were based on the contention that inflation was caused by financing government fiscal deficits through monetary expansion. But this position clearly fails to account for the simultaneous tight monetary policy, fall in inflation and rise in budgetary deficits through the 1980s. The anti-inflation fight squeezed wages, increased inequalities, and strengthened the Wall Street *rentier* class, while military spending kept fiscal policy expansionary and served as the real basis for the Reagan recovery. Moreover, Meeropol shows that the supply-side measures of tax cuts, fiscal restraint and deregulation did not serve to reverse, but rather added to, the symptoms of economic decline in terms of capital spending, GDP growth, productivity, fiscal balance, and competitive position. As measured from business cycle peaks, the neoliberal capital spending incentives did not stimulate investment trends in the 1980s above the rates of the 1970s; productivity growth continued its long-run decline; and higher unemployment was combined with lower capacity utilization. In other words, the characteristic features of economic stagnation continued during the Reagan years, offset only by credit expansion. The emperor of the New Right had no clothes.

Reagan did not complete the neoliberal revolution as his maniacal defense spending, his anti-tax stance, and a congressional Democratic majority still defending Social Security in the 1980s, combined to block the balanced budget initiative. George Bush,

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however, could not avoid the growing fiscal constraints, and in the 1990 Deficit Reduction Act he compromised with Congress allowing spending cuts to be coupled with tax increases. Despite this breach of neoliberal orthodoxy, Gulf War spending, and increased welfare expenditures made necessary by the 1990-1991 recession, added to the deficit. It was the "interaction of recession, slow job growth and slow income growth" that characterized the Bush years and not, as Clinton welfare reforms would later suggest, the "unwillingness of individuals to work." Arguing against the presumption of a Bush betrayal of Reagan, Meeropol notes that it was Bush who pushed NAFTA through, sustained the Uruguay Round leading to the WTO and slapped controls on government spending in the midst of recession. Only the fanatical could claim that the Bush presidency was neoliberalism betrayed.

During the 1992 presidential campaign Clinton trumpeted against the policies of Reagan and Bush, supposedly challenging neoliberalism and the prevailing sense of American decline. As Meeropol writes, Clinton's campaign exploited the stagnation in the standard of living, middle-class feelings of vulnerability, and the fiscal crisis. Clinton proposed his alternative agenda in his 1993 *A Vision of Change for America*: fiscal stimulus in terms of infrastructure spending and investment tax credits; improved education and training; increased taxes on the wealthy coupled with extended tax credits for lower income workers; and deficit reduction partly through program cuts. This uneasy policy mix of reducing taxes and the deficit while increasing investment in education and infrastructure could only be reconciled with the Clinton rhetoric of breaking with neoliberalism by cutting defense expenditures and increasing taxes on the well-off. Still, Meeropol observes that the macroeconomic balance was a contradictory package of "trying to stimulate the economy and reduce the budget deficit at the same time." Something would have to be surrendered.

In fact, from the start Clinton's budgetary policy fixated on the deficit and combined major spending cuts and minor tax increases. His monetary policies did not alter at all the direction that Greenspan had long established of moving to monetary restraint with a relatively high level of unused capacity and unemployment. The first order of business, as Meeropol records Clinton's advisors

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as saying, was to "satisfy the bond market." Indeed, with Greenspan firmly ensconced as an economic tsar in Washington, Clinton left neoliberal monetary policy completely untouched. The second step was the deficit reduction package of the 1993 Budget Reconciliation Act. Here, too, Clintonism made its peace with neoliberalism. When congressional wrangling blocked tax increases, the weight of deficit reduction had to fall on cuts to program spending. Meeropol writes, "The Reagan Revolution had succeeded in shackling even a reform-minded Democratic president supposedly working with a like-minded Democratic majority in Congress."

The main liberal measure of Clinton's first year was expansion of the earned income tax credit for low income earners, a policy that was in any case consistent with the neoliberal emphasis on market incentives. The central liberal policy plank to reform the health care system came, of course, to naught. With the Republicans gaining control of Congress with the 1994 Contract with America platform, Clinton's surrender to the right was complete: health care reform was scrapped; welfare was devolved to the states; and from 1995 on Clinton traded back and forth with Republicans over the favored path of deficit reduction and smaller government. Even the fiscal surpluses of Clinton's second term did not overturn the neoliberal trajectory established during these years. The 1996 Welfare Reform Bill, for instance, turned over welfare responsibility to the states, as initially proposed in Reagan's 1982 New Federalism speech. But more importantly it placed two-year time limits for the able-bodied to be on welfare, effectively making employment even more a wholly individual responsibility. The 1997 budget plan for deficit reduction further locked in balanced budgeting against counter-cyclical stabilization policies. The New Deal and Keynesianism were dead in American politics, sent to the policy graveyard by Clinton's Democrats. "The Clinton Administration," Meeropol concludes, "has as its legacy an abject surrender to an unelected group of people who represent the financial sector of the economy."

If Clinton's presidency embraced neoliberalism, how do we account for the economy's performance? Meeropol observes that Clinton's welfare and budgetary policies have yet to be tested by recession, and the implications of the welfare reforms are thus not

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fully known. He suggests that there is more fragility to the New Economy than the business press would have us believe. By historical standards, the recovery from the early 1990s slowdown has been unexceptional: the business cycle upswing phase has been the weakest of the postwar period with GDP growth in the 3-4 percent range as opposed to a postwar average near 5 percent. Per capita GDP performance of the United States across the 1990s has been near the average of the advanced countries. The length of the upswing has, indeed, been impressive, as has been growth and productivity performance in the last two years at the top of the business cycle. Yet these trends must be set against the depth of the prior recession of the early 1990s, and the domestic and international credit mechanisms that have sustained growth, especially the increased liquidity after the Asian crisis of 1997 that sent huge volumes of capital into the United States. Indeed, the negative savings rate sustaining U.S. growth has meant unprecedented growth of domestic personal and business credit as well as record current account deficits.

Similarly, the real wage growth that has occurred since 1995 only partly reverses the astonishing decline in living standards that American workers have faced since 1973. These gains, too, pale in comparison to the real annual wage gains across the postwar period. The story is the same for the drop in unemployment through the 1990s, which even in the 4-5 percent range remains above postwar unemployment figures. In any case, the unemployment figures conceal as much as they reveal: the growth of involuntary part-time work, underemployment, and contingent work all serve to increase labor reserve pressures impacting on labor effort and the rate of exploitation. Amazingly the New Economy has spelled the end of the forty-hour week. Americans now work longer hours daily, weekly, and yearly, than workers in any of the other advanced capitalist states. Growing inequality is evident: the average incomes of the poorest quintile of Americans have dropped below levels of the 1970s, while the richest 1 percent of Americans have after-tax incomes roughly equal to the bottom 100 million together.

These developments have left traditional reformers, notably in the labor movement but also in progressive think tanks such as the Economic Policy Institute or the Jerome Levy Institute, uneasy with Clintonism's whole-hearted embrace of the market. For his part,

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Meeropol vigorously defends the state's role in stabilization policies and in providing some protection against market failures, and he warns that it is unlikely that mere expansionary monetary policies by the Fed could save the U.S. economy from the inevitable recession that follows business cycle peaks. Meeropol's alternative "high-wage, high-employment strategy," moreover, invokes controls over financial movements, public sector capital spending, incomes policies, a "democratized" Federal Reserve, labor and environment standards in trade agreements, and wider involvement in corporate governance. But it needs to be said that even such a return to Keynesian economic strategies will have to confront both the Wall Street high-technology power complex and the Democratic Party. The political and economic landscapes have been fundamentally altered by the New Right and a new bag of economists' tricks will not resolve the contradictions of capitalism.

Beyond Clintonism

Meeropol's analysis of the liberal surrender of American economic policy to the mavens of Wall Street and the dogmas of neoliberal economics is thorough and detailed. He demonstrates a free market policy continuity extending from the New Right policies of Reagan to the new liberalism of Clinton. This pulls the rug from under European social democratic leaders—Blair in Britain, D'Alema-Amato in Italy, and Schroder in Germany in particular—and their love affair with the American model. Meeropol's type of analysis should also lead to some strategic rethinking on the part of the AFL-CIO and many American progressives persisting with the old direction of automatically supporting the Democratic Party. American liberalism, like European social democracy, has become incorporated within the international pressures of capitalism favoring neoliberal policies. The progressive competitiveness strategy of expanding training in high value-added sectors of new technology that Clintonism initially proffered as an egalitarian alternative to neoliberalism has, as Meeropol shows, surrendered to the Reagan revolution. The new presidency of George W. Bush—Bush the Younger so to speak—has been remarkably comfortable with the Clinton economic legacy. The central policy disputes in Washington occur totally on the terrain of neoliberalism: the pace

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and degree of budgetary and tax cutting and debt reduction. The Clinton surrender is now a complete rout.

The November 1999 demonstrations in Seattle, and others that have followed in its wake, have, for the U.S. left, been among the most significant acts of resistance against neoliberalism in general, and Clintonism in particular. Michael Meeropol's damning indictment of the economic direction of the Clinton presidency demonstrates that nowhere is the need for a new movement more pressing than in the United States.

Fifty Years Ago in MONTHLY REVIEW

"If the American ruling class is sincere in its belief that this country is menaced by external dangers—and we believe that there is no question that it *is* sincere—the reason is not that any other *nation* is threatening the United States. On the contrary, as we have seen, in the sphere of strictly *international* relations the threats are all the other way around. The menace which weighs on the minds and souls of the American ruling class is the expansion of the socialist *system* which takes place not through any of the means known to power politics but through internal revolutions in countries where the old order is rottenest and weakest."

—The Editors, "The Hope for Peace,"
Monthly Review, April 1951, p. 517.

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"There are…many more temporary workers [today] who can be released quickly if times turn bad. Almost 3% of the workforce—more than 3 million people—is now employed by employment or temporary-help agencies, double the share at the end of the 1980s. An additional 10% of workers are either independent contractors or temporary workers directly hired by their companies."

—*Business Week*, February 14, 2000, p. 121.

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THE DANIEL SINGER PRIZE

The DANIEL SINGER MILLENNIUM PRIZE FOUNDATION invites submissions to the 2001 Daniel Singer Prize competition.

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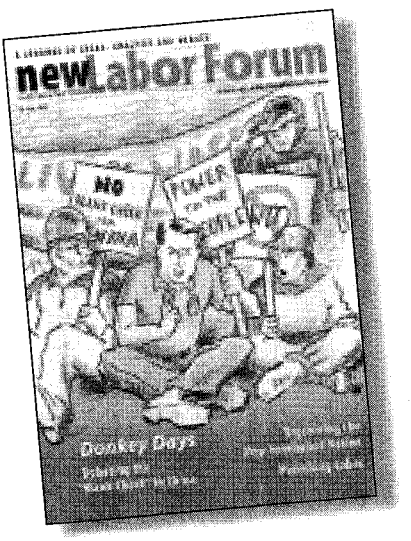

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paign, the BRC is circulating an Anti-Police Brutality and Misconduct Petition. The petition, in a form intended for the gathering of signatures, can be downloaded from <www.blackradicalcongress.org>. We welcome this initiative, and will be gathering some signatures ourselves.

Boston-area readers of *MR* may be interested in a study group discussing Daniel Singer's important work *Whose Millennium? Theirs or Ours?* For more information call (617) 731-8725.

From time to time, we receive bequests from readers who want to contribute to the continuance of *Monthly Review*, Monthly Review Press, or the Monthly Review Foundation. Those who wish to do the same may simply state in their wills that the bequest is to "The Monthly Review Foundation, 122 West 27th Street, New York, NY 10001." For additional information contact Martin Paddio at (212) 691-2555.

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enjoys working. *MR*'s morale has not been this high in a very long time. We are thus happy to announce that these two younger friends and colleagues are joining us as permanent—no longer "acting"—co-editors of *Monthly Review.*

Last June in this space we wrote of the student protests at universities and colleges across the country aimed at getting their schools to affiliate with the Worker Rights Consortium (WRC) based in New York. The WRC was established by the United Students Against Sweatshops to monitor the conditions under which university-licensed goods are produced and sold by such companies as Nike, Reebok, Disney, and the Gap. On January 24, 2001, the WRC issued preliminary findings and recommendations on its investigation of a formal written complaint by workers at the Kukdong apparel factory in Atlixco, in the state of Puebla, Mexico. The Kukdong factory produces apparel for Nike under licensing agreements between Nike and WRC-affiliated universities. The same factory also produces apparel for Reebok.

The investigation by the WRC revealed a long list of abuses by management at the Kukdong factory, including refusal to reinstate workers following a January 9-11 work stoppage. The WRC's preliminary findings indicated that "Kukdong managers and supervisors have committed, and continue to commit, sporadic acts of physical assault and verbal abuse against workers. These acts range from physical assaults such as blows by hammer and screwdriver, to slaps on the front and back of workers' heads, to screaming of racial epithets and obscenities. (This fact was admitted by Kukdong managers, although managers disagreed with workers about the frequency and severity of the physical and verbal assaults.)" As Mark Barenberg, a Columbia University law professor who led the WRC investigation, is quoted as saying in an Associated Press dispatch: "The general manager [of the factory] himself volunteered information about one manager hitting a worker with a hammer"(*Eugene Register-Guard,* January 28, 2001).

Other WRC findings reveal that: (1) children thirteen to fifteen years old are employed for workdays of nine to ten hours; (2) many workers in the plant are paid below the minimum wage required by Mexican law for the occupation of seamstress, putting a worker with one dependent "below the commonly recognized line of 'extreme poverty'"; (3) workers had developed rashes, fevers and stomach disorders after eating rancid meat and other unhealthy food in the factory cafeteria; (4) workers were routinely locked inside the company gates during their lunch breaks; (5) five supervisory workers involved in the formation of a non-company union were dismissed from their jobs, with grounds for their dismissals asserted post hoc by management; (6) police had beaten workers who during the work stoppage had occupied the outdoor patio lying between the factory building and the fence surrounding the factory compound; and (7) Kukdong had refused to reinstate most workers who had participated in the January 9-11 work stoppage.

What is clear to us is that these conditions, some of which have already been confirmed by Kukdong factory management, would not have been revealed at all, or become a public issue, if university students had not organized the United Students Against Sweatshops and created the WRC as an independent monitoring agency. The fact that such investigations are taking place thus represents a victory for the anti-globalization movement—one which we hope will translate into both better conditions for workers and a growing movement of international solidarity in resisting capital.

Our comrades of the Black Radical Congress have launched a campaign to resist the police state that lies just beneath the facade of U.S. democracy. To start the cam-

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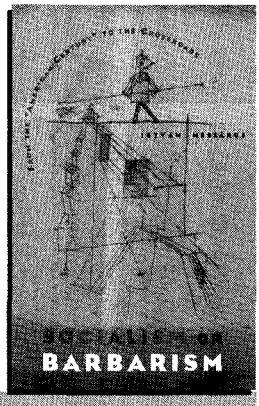

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